

HELIUM ACT OF 1994

HEARING
BEFORE THE
SUBCOMMITTEE ON
ENERGY AND MINERAL RESOURCES
OF THE
COMMITTEE ON
NATURAL RESOURCES
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION
ON
H.R. 3967

TO AMEND THE HELIUM ACT TO PROHIBIT THE BUREAU OF MINES
FROM REFINING HELIUM AND SELLING REFINED HELIUM, TO DIS-
POSE OF THE UNITED STATES HELIUM RESERVE, AND FOR OTHER
PURPOSES

HEARING HELD IN WASHINGTON, DC
APRIL 19, 1994

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H.R. 3967, THE HELIUM ACT OF 1994

TUESDAY, APRIL 19, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES,
COMMITTEE ON NATURAL RESOURCES,
Washington, DC.

The subcommittee met, pursuant to call, at 10:02 a.m. in Room 1324, Longworth House Office Building, Hon. Richard H. Lehman [chairman of the subcommittee] presiding.

STATEMENT OF HON. RICHARD H. LEHMAN

Mr. LEHMAN. The subcommittee will come to order.

The subcommittee is meeting today to conduct a hearing on H.R. 3967, a bill to reform the Federal Helium Program which is administered by the Bureau of Mines in the Department of the Interior.

H.R. 3967, the Helium Act of 1994, is a bill that I, along with Chairman Miller and Representative Vucanovich, introduced. It is a bipartisan, good-government bill to get the Federal Government out of the helium business.

While most people associate helium with balloons and blimps, many don't realize that it is also used in the space shuttle program and Star Wars research for cryogenics and magnetic resonance imaging. Even the most well-informed taxpayers probably don't realize that the Federal Government has been in the helium business since World War I.

The Bureau of Mines' Helium Program began as an effort to assure the Government of an adequate supply of helium at a time when there was no private helium production.

Concerns that helium supplies were tapering off prompted the Bureau to contract in 1960 with private companies to supply crude helium to the Federal Government. To finance the purchases, the Bureau borrowed \$250 million from the Treasury, mistakenly believing that future sales would recover the loan. The currently 32 billion cubic feet of helium is stockpiled in an underground dome northwest of Amarillo, Texas. Estimates suggest that this amount will safely cover Federal needs for over a century.

Annually the Bureau spends about \$20 million to operate its facilities and pays back about \$10 million. However, since incurring this debt the Bureau has paid back only \$77 million of the almost \$300 million borrowed. The debt, largely ignored during the past 30 years, now stands at \$1.4 billion with the interest payment alone at about \$66 million a year.

Today the private sector produces over 90 percent of the helium supplies in the United States, but because Federal agencies are re-

quired to purchase helium from the Bureau, the Government continues to operate the helium recovery and purification facility in Amarillo, Texas. Unfortunately, these facilities are outmoded, in need of constant repair, and are not nearly as efficient as private facilities.

The study conducted by the Bureau five years ago concluded that the cost of upgrading and modernizing the plant would not be cost effective because the expense could not be properly depreciated in the coming years.

The GAO, Inspector General of the Department of the Interior, the National Taxpayers Union, and the Helium Advisory Council have subsequently called for reform of the Helium Program. In recognition of these factors, we have introduced legislation which will get the Federal Government out of the helium business without creating a fire sale of the crude helium that is in the stockpile.

Briefly, our proposal eliminates the Federal Helium Refining and Production Enterprise. However, the Cliffside reservoir and the pipeline associated would be maintained by the Bureau of Mines. Federal agencies would be allowed to purchase helium from the lowest bidder. The stockpile would be maintained until no later than 2014 to allow other reserves to be depleted and to ensure that Federal helium will receive the optimum price when sold and that such sales will not disrupt the private market.

[Text of H.R. 3967 follows:]

103D CONGRESS
2D SESSION

H. R. 3967

To amend the Helium Act to prohibit the Bureau of Mines from refining helium and selling refined helium, to dispose of the United States helium reserve, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 8, 1994

Mr. LEHMAN (for himself, Mrs. VUCANOVICH, and Mr. MILLER of California) introduced the following bill; which was referred to the Committee on Natural Resources

A BILL

To amend the Helium Act to prohibit the Bureau of Mines from refining helium and selling refined helium, to dispose of the United States helium reserve, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Helium Act of 1994”.

5 **SEC. 2. AMENDMENT OF HELIUM ACT.**

6 Except as otherwise expressly provided, whenever in
7 this Act an amendment or repeal is expressed in terms
8 of an amendment to, or repeal of, a section or other provi-

1 sion, the reference shall be considered to be made to a
2 section or other provision of the Helium Act (50 U.S.C.
3 167 to 167n).

4 **SEC. 3. AUTHORITY OF SECRETARY.**

5 Sections 3, 4, and 5 are amended to read as follows:

6 **“SEC. 3. AUTHORITY OF SECRETARY.**

7 “(a) **EXTRACTION AND DISPOSAL OF HELIUM ON**
8 **FEDERAL LANDS.**—(1) The Secretary may enter into
9 agreements with private parties for the recovery and dis-
10 posal of helium on Federal lands upon such terms and
11 conditions as he deems fair, reasonable and necessary. The
12 Secretary may grant leasehold rights to any such helium.
13 The Secretary may not enter into any agreement by which
14 the Secretary sells such helium other than to a private
15 party with whom the Secretary has an agreement for re-
16 covery and disposal of helium. Such agreements may be
17 subject to such rules and regulations as may be prescribed
18 by the Secretary.

19 “(2) Any agreement under this subsection shall be
20 subject to the existing rights of any affected Federal oil
21 and gas lessee. Each such agreement (and any extension
22 or renewal thereof) shall contain such terms and condi-
23 tions as deemed appropriate by the Secretary.

24 “(3) This subsection shall not in any manner affect
25 or diminish the rights and obligations of the Secretary and

1 private parties under agreements to dispose of helium pro-
2 duced from Federal lands in existence at the enactment
3 of the Helium Act of 1994 except to the extent that such
4 agreements are renewed or extended after such date.

5 “(b) STORAGE, TRANSPORTATION AND SALE.—The
6 Secretary is authorized to store, transport, and sell helium
7 only in accordance with this Act.

8 “(c) MONITORING AND REPORTING.—The Secretary
9 is authorized to monitor helium production and helium re-
10 serves in the United States and to periodically prepare re-
11 ports regarding the amounts of helium produced and the
12 quantity of crude helium in storage in the United States.

13 **“SEC. 4. STORAGE AND TRANSPORTATION OF CRUDE**
14 **HELIUM.**

15 “(a) STORAGE AND TRANSPORTATION.—The Sec-
16 retary is authorized to store and transport crude helium
17 and to maintain and operate existing crude helium storage
18 at the Bureau of Mines Cliffside Field, together with relat-
19 ed helium transportation and withdrawal facilities.

20 “(b) CESSATION OF PRODUCTION, REFINING, AND
21 MARKETING.—Effective one year after the date of enact-
22 ment of the Helium Act of 1994, the Secretary shall cease
23 producing, refining and marketing refined helium and
24 shall cease carrying out all other activities relating to he-
25 lium which the Secretary was authorized to carry out

1 under this Act before the date of enactment of the Helium
2 Act of 1994, except those activities described in subsection
3 (a).

4 “(c) DISPOSAL OF FACILITIES.—(1) Within one year
5 after the date of enactment of the Helium Act of 1994,
6 the Secretary shall dispose of all facilities, equipment, and
7 other real and personal property, together with all inter-
8 ests therein, held by the United States for the purpose
9 of producing, refining and marketing refined helium. The
10 disposal of such property shall be in accordance with the
11 provisions of law governing the disposal of excess or sur-
12 plus properties of the United States.

13 “(2) All proceeds accruing to the United States by
14 reason of the sale or other disposal of such property shall
15 be treated as moneys received under this chapter for pur-
16 poses of section 6(f). All costs associated with such sale
17 and disposal (including costs associated with termination
18 of personnel) and with the cessation of activities under
19 subsection (b) shall be paid from amounts available in the
20 helium production fund established under section 6(f).

21 “(3) Paragraph (1) shall not apply to any facilities,
22 equipment, or other real or personal property, or any in-
23 terest therein, necessary for the storage and transpor-
24 tation of crude helium.

1 “(d) **EXISTING CONTRACTS.**—All contracts which
2 were entered into by any person with the Secretary for
3 the purchase by such person from the Secretary of refined
4 helium and which are in effect on the date of the enact-
5 ment of the Helium Act of 1994 shall remain in force and
6 effect until the date on which the facilities referred to in
7 subsection (c) are disposed of. Any costs associated with
8 the termination of such contracts shall be paid from the
9 helium production fund established under section 6(f).

10 **“SEC. 5. FEES FOR STORAGE, TRANSPORTATION AND WITH-**
11 **DRAWAL.**

12 “Whenever the Secretary provides helium storage,
13 withdrawal, or transportation services to any person, the
14 Secretary is authorized and directed to impose fees on
15 such person to reimburse the Secretary for the full costs
16 of providing such storage, transportation, and withdrawal.
17 All such fees received by the Secretary shall be treated
18 as moneys received under this Act for purposes of section
19 6(f).”.

20 **SEC. 4. SALE OF CRUDE HELIUM.**

21 Section 6 is amended as follows:

22 (1) Subsection (a) is amended by striking out
23 “from the Secretary” and inserting “from persons
24 who have entered into enforceable contracts to pur-

1 chase an equivalent amount of crude helium from
2 the Secretary”.

3 (2) Subsection (b) is amended by inserting
4 “crude” before “helium” and by adding the follow-
5 ing at the end thereof: “Except as may be required
6 by reason of subsection (a), the Secretary shall not
7 make sales of crude helium under this section in
8 such amounts as will disrupt the market price of
9 crude helium.”.

10 (3) Subsection (c) is amended by inserting
11 “crude” before “helium” after the words “Sales of”
12 and by striking “together with interest as provided
13 in this subsection” and all that follows down
14 through the period at the end of such subsection and
15 inserting the following:

16 “all funds required to be repaid to the United States as
17 of October 1, 1993 under this section (hereinafter referred
18 to as ‘repayable amounts’). The price at which crude he-
19 lium is sold by the Secretary shall not be less than the
20 amount determined by the Secretary as follows:

21 “(1) Divide the outstanding amount of such re-
22 payable amounts by the volume (in mcf) of crude he-
23 lium owned by the United States and stored in the
24 Bureau of Mines Cliffside Field at the time of the
25 sale concerned.

1 “(2) Adjust the amount determined under para-
2 graph (1) by the Consumer Price Index for years be-
3 ginning after December 31, 1993.”.

4 (4) Subsection (d) is amended to read as fol-
5 lows:

6 “(d) EXTRACTION OF HELIUM FROM DEPOSITS ON
7 FEDERAL LANDS.—All moneys received by the Secretary
8 from the sale or disposition of helium on Federal lands
9 shall be paid to the Treasury and credited against the
10 amounts required to be repaid to the Treasury under sub-
11 section (c) of this section.”.

12 (5) Subsection (e) is repealed.

13 (6) Subsection (f) is amended by inserting
14 “(1)” after “(f)” and by adding the following at the
15 end thereof:

16 “(2) Within 7 days after the commencement of each
17 fiscal year after the disposal of the facilities referred to
18 in section 4(c), all amounts in such fund in excess of
19 \$2,000,000 (or such lesser sum as the Secretary deems
20 necessary to carry out this Act during such fiscal year)
21 shall be paid to the Treasury and credited as provided in
22 paragraph (1). Upon repayment of all amounts referred
23 to in subsection (c), the fund established under this sec-
24 tion shall be terminated and all moneys received under this

1 Act shall be deposited in the Treasury as General Reve-
2 nues.”.

3 **SEC. 5. ELIMINATION OF STOCKPILE.**

4 Section 8 is amended to read as follows:

5 **“SEC. 8. ELIMINATION OF STOCKPILE.**

6 “(a) REVIEW OF RESERVES.—Not later than Janu-
7 ary 1, 2014 the Secretary shall review the known helium
8 reserves in the United States and make a determination
9 as to the expected life of the domestic helium reserves
10 (other than federally owned helium stored at the Cliffside
11 Reservoir) at that time.

12 “(b) RESERVES BELOW 1 BCF IN 2014.—Not later
13 than January 1, 2014, if the Secretary determines that
14 domestic helium reserves (other than federally owned he-
15 lium stored at the Cliffside Reservoir) are less than 1 bil-
16 lion cubic feet (bcf), the Secretary shall commence making
17 sales of crude helium from helium reserves owned by the
18 United States in such amounts as may be necessary to
19 dispose of all such helium reserves in excess of 600 million
20 cubic feet (mcf) by January 1, 2019. The sales shall be
21 at such times and in such lots as the Secretary determines,
22 in consultation with the helium industry, necessary to
23 carry out this subsection. The price for all such sales, as
24 determined by the Secretary in consultation with the he-
25 lium industry, shall be such as will ensure repayment of

1 the amounts required to be repaid to the Treasury under
2 section 6(c) by the year 2019 with minimum market dis-
3 ruption. The date specified in this subsection for comple-
4 tion of such sales and for repayment of debt may be ex-
5 tended by the Secretary for a period of not to exceed 5
6 additional years if necessary in order to assure repayment
7 of such debt with minimum market disruption.

8 “(c) RESERVES ABOVE 1 BCF IN 2014.—Not later
9 than January 1, 2014, if the Secretary determines that
10 domestic helium reserves (other than federally owned he-
11 lium stored at the Cliffside Reservoir) are more than 1
12 billion cubic feet (bcf), the Secretary shall commence mak-
13 ing sales of crude helium from helium reserves owned by
14 the United States in such amounts as may be necessary
15 to dispose of all such helium reserves in excess of 600 mil-
16 lion cubic feet (mcf) by January 1, 2024. The sales shall
17 be at such times and in such lots as the Secretary deter-
18 mines, in consultation with the helium industry, necessary
19 to carry out this subsection with minimum disruption of
20 the market for crude helium.

21 “(d) DISCOVERY OF ADDITIONAL RESERVES.—The
22 discovery of additional helium reserves after the year 2014
23 shall not affect the duty of the Secretary to make sales
24 of helium as provided in subsection (b) or (c), as the case
25 may be.”.

12

10

1 **SEC. 6. REPEAL OF AUTHORITY TO BORROW.**

2 Sections 12 and 15 are repealed.

○

Mr. LEHMAN. Today the subcommittee is going to hear testimony from representatives of the Department of the Interior, the Congressional Budget Office, the GAO, the Oil, Chemical, and Atomic Workers Union, the Amarillo Chamber of Commerce, the helium industry, and a couple of our distinguished colleagues.

I certainly look forward to the discussion this morning, and I would like to recognize at this point the coauthor of the legislation, the ranking member of the subcommittee, the gentlelady from Nevada.

STATEMENT OF HON. BARBARA F. VUCANOVICH

Mrs. VUCANOVICH. Thank you very much, Mr. Chairman. I am very pleased that we are holding this hearing on a bill that I believe to be of significant interest to the American taxpayer because we will be discussing legislation which does something rarely done in Washington—put an end to a program which has outlived its usefulness, the Helium Program.

Concerns that natural gas supplies are drying up prompted Congress to replace the 1925 Helium Act with the Helium Act Amendments of 1960. The 1960 Act was intended to conserve helium for essential Government services and to supply current and foreseeable needs of the Federal Government.

Beginning in 1960, the Federal Government contracted with private companies to supply helium to the Bureau of Mines facility in Amarillo. To finance purchases, the Bureau borrowed \$252 million from the Treasury intending that future sales would recover the loan mandated by law to be repaid by 1995. But Federal demand failed to meet projections, and in 1973 the Bureau of Mines canceled the contracts. This left the Bureau controlling the estimated 32-billion-cubic-foot helium stockpile and a debt which, including interest, is estimated at \$1.3 billion.

Let me speak to the debt for just a minute, if I might. A number of people have asserted that the debt could be canceled with no impact on the budget. I would take exception to what may be a technically-correct statement, but one which certainly my constituents would not accept.

First, in the 1960s this Nation was running a deficit so borrowing this money increased the Federal debt. Second, of the approximately \$248 million in principal that the Bureau borrowed, only \$77 million has been repaid in 30 years including a period between 1965 and 1975 when no money was returned to the Treasury.

Since the 1960s, the need for a Federal program has changed dramatically. Today there is a thriving, efficient U.S. private helium industry which last year provided and supplied an estimated 3 billion cubic feet of the 3.5 billion cubic feet which is sold worldwide.

Domestically there are 11 privately-owned plants in Kansas, Texas, Wyoming, and Colorado. By contrast, the Federal Government continues to operate highly inefficient 50-year-old facilities supplying Government customers at a much higher cost. This inefficiency is perhaps best illustrated by the following two points.

First, 207 people run the Federal facility, producing 300 million cubic feet representing just 10 percent of the 3-billion-cubic-foot do-

mestic market, while approximately 500 people in the private sector produce the other 90 percent.

Second, in Fiscal Year 1993 at least 74 percent of the \$20.7 million that the Bureau of Mines spent to operate the program went for salaries, benefits, and administration.

Mr. Chairman, the inefficiency of the Federal program and the need for reform in the Helium Program has been the subject of national television programs, newspaper articles, congressional hearings, as well as critical statements by public interest groups, including the National Taxpayers Union, the Heritage Foundation, and Citizens Against Government Waste.

I am pleased to have introduced H.R. 3967 along with Chairman Lehman and Chairman Miller in March which stops the needless action of the Federal Government directly competing with the private helium industry. It will save the taxpayers millions of dollars, ensure repayment of the debt, and once and for all put an end to the wasteful Government program that has long outlasted its usefulness.

Our legislation will sell the stockpile over several years with complete sell-off of the entire helium stockpile by a date certain, thereby allowing the private helium fields to be depleted in the intervening years and ensuring that, when sold, the return to the Treasury on the helium stockpile will be at the maximum return to U.S. taxpayers.

This is a good bill, one which has received the support of the helium industry, and I look forward to hearing from the witnesses today.

Thank you, Mr. Chairman.

Mr. LEHMAN. Thank you.

The gentleman from Wyoming.

STATEMENT OF HON. CRAIG THOMAS

Mr. THOMAS. Thank you, Mr. Chairman. I want to thank you for holding this meeting, and you and Mrs. Vucanovich for introducing this bill. I am glad we are talking about this issue. It is one that I have found very frustrating during the time that I have been here. It is a classic example of how the Government works or in fact doesn't work. It is a classic example of the inflexibility, it seems to me, of Federal programs.

Most agree that this program should be done away with. It has been talked about for years, and yet nothing has been done. It is kind of scary to imagine that more and more we see Government solutions to problems in this country, and this is an example of why I think we should not.

Clearly, the private sector can handle the needs of the Nation regarding helium production. Today the private sector, as has been pointed out, produces 90 percent of the world's helium. They can do it better; they can do it cheaper; they can do it more efficiently. Unfortunately, we still have a Federal program designed for the 1920's and clearly failing in the 1990's.

This bill may not be perfect, but I think it does address the basic issues here before us. One is to terminate the Helium Program; the other is the matter of repaying the debt; and of course, the third

is to protect the private market somewhat from disruption in this case.

So I am very much supportive of what is being done here. I think that it is time that we face this with our budget deficits and so on. We have to do something. I am in support of the bill, and I congratulate you for your efforts.

Mr. LEHMAN. Thank you.

The gentleman from Colorado.

STATEMENT OF HON. SCOTT McINNIS

Mr. McINNIS. Thank you, Mr. Chairman, and to the ranking member also. I think that the bill is a good bill.

It is incredible to me that the United States Government continues to operate this helium facility when there is not a private company in the entire world that would have that kind of subsidy or allow that kind of inefficient operation, so I intend to support the effort by the ranking member and the chairman, and I certainly think it is headed in the right direction—toward efficiency in government.

Thank you, Mr. Chairman.

Mr. LEHMAN. Thank you.

Now I recognize the gentleman from West Virginia, Mr. Rahall.

STATEMENT OF HON. NICK JOE RAHALL II

Mr. RAHALL. Thank you, Mr. Chairman.

Mr. Chairman, as you well know, this is not a new issue to me. We held hearings, and I had the opportunity to personally visit the helium facility in the gentleman from Texas's district during my tenure as chairman of this subcommittee.

Mr. Chairman, in my view, the pending legislation addresses perception rather than reality. I know that is an unusual statement and something that is unheard of here, but there is a perception that the Federal Helium Program administered by the U.S. Bureau of Mines represents a drain on the Treasury, and I have heard the opening statements and similar comments from our dear colleagues on the other side.

In fact, if assessed realistically, the program is on pretty secure financial grounds with annual sales in the range of \$32 million and operating costs of \$19 million, leaving \$13 million for the Treasury—repeating that, leaving \$13 million for the Treasury.

There is a perception that the Bureau competes with private industry. It is true there are numerous suppliers of helium in the private sector, but it is not true that there are many producers of helium in the private sector. In fact, the pending legislation raises a specter that we will be paving the way for the creation of a monopoly in helium production.

Simply put, while fine-tuning legislation may be in order, I would maintain that the interests and security of the United States would be ill-served by the wholesale dismantlement of the Federal Helium Program as administered by the Bureau of Mines.

So I look forward to hearing from the gentleman from Texas. I am sure that he will go into further detail, but I do think that we ought to look at the facts of this particular situation rather than what may be perceived.

I yield back my time.

Mr. LEHMAN. Thank you very much.

Without further ado, we will hear from the gentleman from Texas.

First though I would like to put a couple of letters in the record: a letter in support of the legislation from the National Taxpayers Union and a statement in support of the legislation from the Governor of Wyoming, Mr. Sullivan.

[The documents follow:]



NATIONAL TAXPAYERS UNION

April 18, 1994

The Honorable Richard Lehman, Chairman
 House Natural Resources Committee
 Energy and Mineral Resources Subcommittee
 818 O'Neill House Office Building
 Washington, DC 20515

Dear Mr. Chairman:

Your recent letter invited our input regarding legislation that would revise current law pertaining to the National Helium Reserve. In response, I am pleased to advise you that the position of the National Taxpayers Union remains constant. NTU supports all measures which would get the U.S. out of the helium business, as soon as possible.

NTU believes the National Helium Reserve represents a failed 1925 U.S. government policy which continues at an annual cost of \$128 million. We note, as the *New York Times* noted last year, that this program is well past \$1 billion in debt and perhaps 100 years ahead in the supply of stockpiled helium.

Since the non-government market supply of helium is more than adequate to meet all demands, including government uses that are now supplied by the Reserve on a mandated basis at a much higher price, all U.S. refining and marketing activity should cease immediately. The Reserve should be liquidated so as to provide the best return for the taxpayers who have continued to fund this boondoggle.

The National Taxpayers Union is most supportive of all legislation that would put an end to the National Helium Reserve. We appreciate the opportunity to comment.

Sincerely,

Al Cors, Jr.
 Director, Government Relations

AC/br

STATEMENT TO THE SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
BY GOVERNOR MIKE SULLIVAN

April 19, 1994

Exxon Company, U.S.A. invested \$1.2 billion dollars in a gas processing facility in southwest Wyoming between 1983 and 1986. The plant is known as the La Barge Processing Facility or the Shute Creek Plant. The plant became operational in 1986 and has increased the volume of inlet gas through time. During 1993, the plant averaged almost 600 MMCF/D of inlet gas of which .5% was helium. Helium is an important by-product of the plant and over \$1.3 million in severance taxes have been generated from the La Barge facility. For reasons associated with these tax revenues and the fact that there is now an efficient private sector producing helium, the State of Wyoming does not believe the federal government should be allowed to disrupt that market.

In testimony offered at hearings before the Wyoming Oil and Gas Conservation Commission, Exxon has said that the La Barge Facility supplies one-third of the free world helium supply. When the plant was constructed, Exxon had high hopes for the sale of the various products from this plant. It is clear from the history of the plant those expectations have fallen short of Exxon's corporate goals. The introduction of any significant volumes of helium into the market place by the federal government could depress the sale of helium from the La Barge facility and further reduce the efficiencies of the plant and the private market.

In addition, we recommend Congress consider enacting legislation that would:

1. Require the Bureau of Mines to discontinue the processing and sale of refined helium;
2. Require the Bureau of Mines to continue to maintain and manage the helium pipeline and storage system with user fees sufficient to cover costs;
3. Preclude the sale of crude helium by the Bureau of Mines until current production of helium no longer satisfies current demand;
4. Eventually repay the helium debt over several years with revenue generated from the sale of crude helium when market circumstances merit its release, thereby taking advantage of the inherent value of the product rather than dumping it on the market.
5. Finally, I would strongly support, for reasons which may be obvious, the fee for helium production be made a royalty as with all other like resource productions. The difference between the handling of methane, as a royalty, and helium, as a fee, makes no logical sense given the common production stream.

We support, HR3967 inasmuch as it will protect the efficient free marketing of helium without the destabilization occasioned by the federal government becoming a large part of that market.

HR3967 will serve to encourage the continued operation of the La Barge facility. HR3967 will help to provide the continued employment of approximately 135 permanent employees in southwest Wyoming.

HR3967 will also benefit the taxpayers of the nation as a whole and our collective attempts to encourage efficiency in government operations, because helium can be refined at the La Barge facility much more economically than can be accomplished by the federal government. The La Barge facility refines 1.2 BCF per year with 12 people versus the federal government plant that refines 300 million cubic feet per year with 90 people.

I urge your favorable consideration of HR3967.

Mr. LEHMAN. Congressman Sarpalius, you have the floor, and we will be happy to take your testimony and hear what you have to say. You may proceed.

STATEMENT OF HON. BILL SARPALIUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. SARPALIUS. Thank you, Mr. Chairman, and I want to thank you for the opportunity to appear before this subcommittee today to discuss the Bureau of Mines helium operations.

Last fall when this subcommittee considered H.R. 3400, the Government Reform and Savings Act of 1993, the section dealing with the Helium Program was deleted with the promise to deal with it this year. I appreciate the opportunity to look closely at the program.

With the interest increasing annually on the helium debt, it appears to the casual observer that the program loses in the neighborhood of \$120 million per year. Your legislation, H.R. 3967, would freeze the debt at the current level and not allow for additional interest to be charged.

Last year, I introduced similar legislation, H.R. 2187, that would have canceled all interest on the debt, leaving the principal of \$252 million to be repaid from the sale of helium and the transmission and storage fees paid by private industry for the use of Government facilities.

Last year Vice President Gore's National Performance Review report made the following recommendations regarding the Helium Program: First, that the Helium Act of 1960 would be amended to cancel outstanding principal and interest of the helium debt; two, after the debt has been canceled, the U.S. Bureau of Mines should reduce its prices; three, the Bureau of Mines should increase efficiency that will result in the reduction of up to 30 positions, which is about a 15 percent reduction in the work force; four, the Bureau of Mines should increase fees charged to the private industry for transmission and storage of privately-owned helium stored in the Government reserves; and, five, that the Bureau of Mines should increase sales of crude helium from the reserve as market conditions permit.

When CBO scored the National Performance Review proposal, the result was that the proposal, if enacted, would result in approximately \$6 million in savings per year to the taxpayers. On November 16, 1993, CBO reported:

Authorizing the President to cancel the helium funds debt to the Treasury would have no budgetary effect. The outlays have already been appropriated, the interest portion of the debt is a paper transaction, not an outlay of the Federal Government.

This is consistent with the GAO report of October 1992 titled "Meeting Federal Needs for Helium" wherein GAO recommended the Congress cancel the debt in the helium fund "because canceling the debt would not adversely affect the Federal budget."

In addition OMB agrees that the debt forgiveness will eliminate a paper transaction and will not impact the deficit.

H.R. 3400 incorporated the recommendations of the National Performance Review regarding the helium operations and would have allowed for an orderly sale of the stockpile of helium.

I am concerned with the language of H.R. 3967, particularly section 8 that directs the Secretary to evaluate helium reserves not later than January 1, 2014, and depending on the private domestic reserves to begin the sales of the stockpile. The Secretary is directed to begin the sales of the stockpile to dispose of all but 600 million cubic feet either by January 1 of 2019 or January 1 of 2024, but the sales must meet the approval of the helium industry with minimum disruption in the market. It will be impossible to dispose of that quantity of helium in a 5- or 10-year period without disrupting the market.

I predict that if H.R. 3967 is enacted on January 1, 2014, Congress will be in the exact position we find ourselves in today—discussing what to do with the Government asset.

My greatest concern, however, is the supply of helium to Federal customers. The Bureau of Mines has ensured a constant supply of helium to Federal agencies and has an excellent delivery record. I would like to quote a poll of Federal helium customers regarding the service provided by the Bureau of Mines from the Department of Energy:

We would anticipate that costs would increase significantly if we had to secure the gas from private industry.

From the Department of Navy:

Of concern to us is the potential of losing the tight quality control that we require and has been maintained. We also are concerned that if the proposed transfer of helium reserves occurs prices will escalate. We have received nothing but the very best service from the Bureau of Mines and would appreciate knowing that this relationship can continue.

And from the Department of Air Force:

Decontrol of helium would definitely have an adverse impact, sharply escalating helium support costs for national defense. We have come to rely heavily on the Bureau's expertise and high performance.

I recently became aware of an incident at an Air Force Base that alarms me as to what the future will hold for Federal agencies that rely on the private sector for helium. The contracting officer at this base was told by his supplier of various gases, Airco, that they would not ship an order because the Federal Government under prompt-payment provisions has 30 days to pay the bill. The company wanted immediate payment.

One incident related to me by this contracting officer was that a refused order for aviators' breathing oxygen caused the Air Force to close a runway. This is outrageous and indicates to me that the private sector is not responsive to Government needs. A private company should not be in a position to jeopardize an entire mission. National security demands that we not turn over such an essential service to a private contractor who may be unreliable when we need critical delivery of helium for space shuttle support or other national needs.

Again, Mr. Chairman, I appreciate the opportunity to testify here today, and I urge you to give strong consideration to supporting the recommendations made by Vice President Gore's National Performance Review after careful review of the helium operations.

Mr. Chairman, I hope my testimony has shown that the National Performance Review, the GAO (General Accounting Office), CBO (Congressional Budget Office), OMB (Office of Management and

Budget), all agree with my position. I hope you can clearly see that the Government agencies must have a reliable source of helium, and I believe it is in the best interests of our country that the Bureau of Mines continue to provide that service.

[Prepared statement of Mr. Sarpalius follows:]

**Testimony of Representative Bill Sarpalius
before the
Subcommittee on Energy and Mineral Resources
April 19, 1994**

Chairman Lehman, I want to thank you for the opportunity to appear before this subcommittee today to discuss the Bureau of Mines Helium Operations. Last Fall, when this subcommittee considered H.R. 3400, the Government Reform and Savings Act of 1993, the section dealing with the helium program was deleted with the promise to deal with it this year. I appreciate the opportunity to look closely at the program.

Mr. Chairman, I have a resolution that was passed by the City Commission of Amarillo regarding the helium operations to submit and request that it be included in the record.

The Federal helium program has received much negative publicity and has been targeted by many "watchdog" groups as a wasteful federal program that should be eliminated. I believe the facts show otherwise.

Obviously, with interest accruing annually on the "helium debt" it appears to the casual observer that the program loses in the neighborhood of \$120 million per year. Your legislation, H.R. 3967, would freeze the debt at the current level and not allow for additional interest to accrue. Last year, I introduced similar legislation, H.R. 2187, that would have cancelled all interest on the debt leaving the principal of \$252 million to be repaid from the sale of helium and the transmission and storage fees paid by private industry for use of government facilities.

Last year, Vice President Gore's National Performance Review report made the following recommendations regarding the helium program:

1. The Helium Act of 1960 should be amended to cancel the outstanding principal and interest of the helium debt.
2. Coincident with debt elimination, the U.S. Bureau of Mines should reduce prices.
3. The Bureau of Mines should increase efficiencies that will result in a reduction of up to 30 FTEs (which is a 15% reduction in work force).
4. The Bureau of Mines should increase fees charged private industry for transmission and storage of privately-owned helium stored in the government reservoir.
5. The Bureau of Mines should increase sales of crude helium from the reserve as market conditions permit.

When CBO scored the National Performance Review proposal, the result was that the proposal, if enacted, would result in approximately \$6 million dollars savings per year to the taxpayers.

It is interesting to note the statement of James L. Blum, Deputy Director of the Congressional Budget Office, before the Senate Committee on Energy and Natural Resources on November 16, 1993. In the portion on canceling the helium debt, the statement reads, "authorizing the President to cancel the helium fund's debt to the Treasury would have no budgetary effect because the debt is intragovernmental. The outlays that the debt embodies have already been appropriated; the interest portion of the debt is a paper transaction, not an outlay of the federal government."

This is consistent with the GAO report of October 1992, Meeting Federal Needs for Helium, wherein GAO recommends that the Congress cancel the debt in the Helium Fund "because canceling the debt would not adversely affect the federal budget."

In addition, OMB agrees that debt forgiveness will eliminate a paper transaction and will not impact the deficit.

H.R. 3400 incorporated the recommendations of the National Performance Review regarding the helium operations and would have allowed for an orderly sale of the stockpile of helium.

I am concerned with the language of H.R. 3967, particularly section 8 that directs the Secretary to evaluate helium reserves not later than January 1, 2014, and depending on the private domestic reserves, to begin sales of the stockpile. The Secretary is directed to begin sales of the stockpile to dispose of all but 600 million cubic feet either by January 1, 2019 or January 1, 2024, but the sales must be made in consultation with the helium industry with minimum disruption of the market. It will be impossible to dispose of that quantity of helium in a five to ten year period without disrupting the market. I predict that if H.R. 3967 is enacted, on January 1, 2014, Congress will be in the exact position we find ourselves in today, discussing what to do with this government asset.

My greatest concern, however, is the supply of helium to Federal customers. The Bureau of Mines has ensured a constant supply of helium to Federal agencies and has an excellent delivery record. I would like to quote from a poll of Federal helium customers regarding services provided by the Bureau of Mines:

* Department of Energy: "We would anticipate that costs would increase significantly if we had to procure the gas from private industry."

* Department of the Navy: "Of concern to us...is the potential of losing the tight quality control that we require and has been maintained.... We also are concerned that if the proposed transfer of Helium reserves occurs, prices will escalate.... We have received nothing but the very best service from the Bureau of Mines and would appreciate knowing that this relationship can continue..."

* Department of the Air Force: "Decontrol of helium would definitely have an adverse impact, sharply escalating helium support costs for national defense...we have come to rely heavily on the Bureau's expertise and high performance..."

Conversely, I recently became aware of an incident at an Air Force Base that alarms me as to what the future will hold if Federal agencies have to rely on the private sector for helium. The contracting officer at this base was told by their supplier of various gases, Airco, that they would not ship an order because the Federal government, under prompt pay provisions, has 30 days to pay the bill. The company wanted immediate payment. One incident related to me by this contracting officer was that a refused order for aviator's breathing oxygen caused the Air Force to close a runway. This is outrageous and indicates to me that the private sector is not responsive to government needs. A private company should not be in a position to jeopardize an entire mission. National security demands that we not turn over such an essential service to a private contractor who may be unreliable when we need critical delivery of helium for Space Shuttle support or other national needs.

Again, Mr. Chairman, I appreciate the opportunity to testify here today and urge you to give strong consideration to supporting the recommendations made by Vice President Gore's National Performance Review after careful review of the helium operations.

Mr. LEHMAN. Thank you very much.

Mr. COX, did you want to testify? We will take you right now as well.

**STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. COX. Thank you very much, Mr. Chairman and members of the committee. I welcome the opportunity to discuss the future of the National Helium Reserve with you today.

We have come a long way since last May when this subcommittee was beginning to question the current conduct of operations at the Strategic Helium Reserve. Today we are considering legislation that is objectionable both to the gentleman from Texas and to the sponsors of the legislation to privatize the National Helium Reserve. That is because, while over 100 Members of Congress have been working hard for several years to privatize the reserve, this bill doesn't do that. In fact, it legislates against privatization well beyond this century into two decades of the next century. But in addition, it disrupts the efficient operation of the existing Government-run operation.

For that reason, I must say that I agree with the position of Mr. Sarpalius and the position that Mr. Rahall has advanced earlier that this bill addresses perception rather than reality. Under the guise of reform, the helium industry has written a bill that will prevent privatization in this century and well into the next. It warehouses helium until the year 2014, probably until the year 2024, probably long beyond that. It does so in the name of reform and in the name of privatization because a tiny portion of assets will be privatized.

We are told we might get as much as \$22 million from privatizing some of the equipment. In fact, it is likely as not to be sold for scrap at a price closer to about \$2 million. Even if we were fortunate to get \$22 million, we would have left the billion-dollar asset untouched.

There is an old story that has been reprised these days because of the problems that the United States and NATO are having in the Balkans. In this reprise President Clinton talks to God, and he asks whether or not there will be peace in the Balkans, and God says to the President, "Not during your term." Messrs. Rabin and Arafat ask God whether or not there will be peace in the Middle East, and God says, "Gentlemen, not in your lifetime." And in this reprise the 103 sponsors—Congressmen Neal, Frank, Pallone, Hoagland, Wyden, Wheat, Margolies-Mezvinsky, Hoyer, Swett, Everett, Dicks, Slaughter, DeLauro, Chairman George Brown, and many more among the sponsors—could talk to God and ask whether or not we will ever privatize the helium reserve as their legislation calls for, and God could say, "Not in my lifetime."

But that shouldn't be our object, we should be after reform of this Government program. Either we should do it the way Representative Sarpalius wants, make it an efficient Government-run operation, or we should privatize it and make it an efficient competitor. But this bill would leave taxpayers shortchanged. It wouldn't sell the stockpile; it would also cancel the taxpayers' right to receive interest on the debt. It will reduce competition rather

than create a new private competitor. It will increase price precisely as Congressman Sarpalius has outlined, precisely as the Department of the Interior will explain in their testimony.

Not only does it pretend to privatize but it threatens to degrade the integrity of a billion-dollar asset; the very equipment that is now used to measure the purity of helium going into the reserve will be auctioned off. The Federal Government apparently will be getting out of this business.

There is planned irrationality in this bill. If it is wise for us someday to sell helium from the stockpile, why, in God's name, would we put it off to the year 2014 before we even begin? And yet we are told that in a compressed 5-year period starting in 2014 the Federal Government would undertake to sell \$33 billion of product and dump it on to the market.

Well, of course the bill says that, if it would disrupt the market, we won't do it during that period of time, and of course that would precisely accomplish the objective of disrupting the market and therefore we wouldn't privatize even on that schedule in 2014. We might extend it out over 10 years, but almost certainly we would see the successors, the children or the grandchildren of the people here today, coming back and saying in the year 2024, "We just can't do it this fast; we have to put it off some more."

This planned irrationality, I note, postpones any sales from the stockpile even while the National Performance Review called for selling less than one one-hundredth of the stockpile each year beginning right away. That is a superior proposal for reform to this legislation.

So I urge the members of this committee who have seized upon a vitally important issue, important because taxpayers in America are wondering why this business is being conducted by the Government, to reform in the right way or don't reform at all.

Mr. LEHMAN. Thank you very much, Mr. Cox.

Are there any questions from our colleagues?

Seeing none, I will thank both of you and appreciate your help on the issue.

Oh, I am sorry. Mr. Thomas has a question.

Mr. THOMAS. I do.

Chris, I guess I am a little surprised at your testimony. You were here in very strong support of disposing of this immediately, as I recall, last fall. Obviously, you can't do that as a practical matter in terms of having a private industry. So this is an effort to do it but to protect a private market.

Obviously you are for the private market. I admire that, but you seem to say, well, we ought to just dump it out there. You can't do that.

Mr. COX. No. If the choice is between doing nothing at all and passing this bill, doing nothing at all—bad as that is—is superior because this bill will legislate that we cannot even begin to privatize the reserve until 2014.

Mr. THOMAS. I don't think that is what the bill says. I don't agree with your analysis.

Mr. COX. It is precisely what the bill says.

Mr. THOMAS. Well, I don't agree with that.

Mr. COX. I don't agree with it either.

Mr. THOMAS. And I don't agree with what you are saying about it. You ought to try and read it a little more closely, I think.

Mr. COX. Well, I would ask the gentleman to clarify——

Mr. THOMAS. Let me finish. May I?

Mr. COX. Sure.

Mr. THOMAS. You suggest we ought to make it more efficient. That sounds a little unusual coming from you also.

Mr. COX. Well, as I say, if our Hobson's choice is between a bill that postpones any privatization by law until the year 2014 and likely as not the year 2024——

Mr. LEHMAN. Will the gentleman yield?

Mr. THOMAS. Go ahead.

Mr. COX. That is not what the bill says. It says not later than January 1, 2014, if the Secretary determines domestic helium reserves are more than one—the Secretary shall commence making sales of crude helium—later than.

Mr. THOMAS. And it seems to me there is some exchange of facilities rather quickly. It seems to me that the private companies then market part of this and begin the refining and distribution and re-tailing process, don't they?

Mr. COX. Well, I guess I would ask the chairman then whether or not he would be willing to say not later than January 1, 1995.

Mr. LEHMAN. Well, what is going to happen to the private market then immediately when you put all that out there? That is all we are trying to do here, is protect the private market.

Mr. COX. Well, whatever procedure you have adopted to avoid dumping will commence in 2014 or it will commence at some earlier date that you have in mind.

Mr. LEHMAN. But the reserves will be gone by then.

Mr. THOMAS. I appreciate your comments. I know how strongly you feel about it, and I agree with you, and it distresses me a little bit that you interpret this so much differently. That is my only point.

Mr. COX. I would just offer to the committee my best efforts to work with you on authentic privatization. This can be accomplished consistent with existing legislation, H.R. 1552, that calls for privatization without disruption of the orderly conduct of private helium markets. That requires that we secureitize the assets, remove the asset, remove the Government from the equation, and then dribble the product out over a long period of time. Postponing the commencement of those sales until 2014 only compresses the problem and makes it even worse. The longer period of time you have to sell the product on the market, the better off you are.

Mr. THOMAS. I guess I have one other question. You mentioned a billion-dollar asset. It is a billion-dollar asset not because of the market value of the asset but because there has been no interest paid on the investment over time. Isn't that true?

Mr. COX. No. I am speaking roughly of the market value of the asset.

Mr. THOMAS. Do you think it is a billion-dollar asset?

Mr. COX. Roughly speaking, we are going to sell the product at future prices, and we don't know whether those prices will go up or down. And of course all of it cannot be liquidated at any one time, but certainly the point is that as a relative matter the prop-

erty, that will be liquidated under this bill accumulating \$10 million or \$20 million or as little as \$2 million, stands in stark relief against an asset that is worth hundreds of millions of dollars, if not a billion or more.

Mr. THOMAS. It is sort of interesting. Mr. Sarpalius talks of an asset worth \$250 million and you talk about one that is worth a billion dollars. There is a difference there.

Mr. SARPALIUS. Well, the difference is that is what we paid for it.

Mr. THOMAS. I understand.

Mr. SARPALIUS. Now, the value of it depends on how long a period of time you take to sell it. If you dump it within a 10-year period, you are not going to get a good price for it. You are just not.

Mr. COX. Precisely.

Mr. SARPALIUS. There is not that much demand.

So you stretch it out, but under this bill it says you have 10 years, if it doesn't disrupt the market—well, it is going to disrupt the market, so they are not going to sell it.

Mr. THOMAS. Thank you.

Mr. COX. Mr. Chairman, I appreciate the opportunity, and I would just say that if we go forward with this bogus privatization which doesn't privatize anything in this century or for decades afterward, not only the Congress but the taxpayers would have been seriously hoodwinked.

Mr. LEHMAN. I want to thank you. I want to commend Mr. Sarpalius and commend him also here, before he leaves, for the fine job that he has done on this issue representing some of his constituents who work here under what are obviously difficult circumstances. We are aware of that here on the committee and want to work with you as closely as we can to ease any burden or hardship on those people if this program is going to be transferred.

Thank you both very much.

Mr. LEHMAN. Next we will hear from our first panel, Ms. Debra Knopman, Deputy Assistant Secretary for Water and Science for the Department of the Interior; Mr. John Anderson, the assistant director of Natural Resources Management Issues in the GAO; and Mr. James Blum, the deputy director of the Congressional Budget Office.

We are going to use the five-minute rule today so if you have a statement longer than that, try to summarize it, and those little lights in front of you will go off when your time is up.

First we will hear from Ms. Knopman.

Ms. KNOPMAN. Thank you, Mr. Chairman. Good morning.

Mr. LEHMAN. Good morning. It is good to see you again.

PANEL CONSISTING OF DEBRA KNOPMAN, DEPUTY ASSISTANT SECRETARY FOR WATER AND SCIENCE, U.S. DEPARTMENT OF THE INTERIOR; JAMES L. BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE; AND JOHN H. ANDERSON, JR., ASSOCIATE DIRECTOR, NATURAL RESOURCES MANAGEMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ROBERT WILSON AND LEN ELLIS

STATEMENT OF DEBRA KNOPMAN

Ms. KNOPMAN. I appreciate the opportunity to come here and testify on your bill.

With the consent of the subcommittee, I would like to summarize my prepared remarks and submit the full statement for the record.

I welcome the opportunity to present the Administration's views on H.R. 3967, the Helium Act of 1994. The Administration concurs with the spirit of the Helium Program reforms envisioned by H.R. 3967, and we agree on the following fundamental principles to achieve common goals.

First, the Government's stockpile of helium is far too large; it should be reduced. Second, the private sector should pay more for storage of its helium in the Government's stockpile reservoir. Third, the issue of the helium debt must be resolved without further interest accumulation. Finally, sound resource management practices are compatible with fiscal savings. We differ in how these principles are applied.

There are no funds directly appropriated for the Helium Program. Federal customers pay for helium and receive appropriations for purchases. This will continue to be the case in the future regardless of whether helium bought by Federal customers is purified by commercial refiners or by the existing Bureau of Mines refinery.

The Administration's program reforms include direct commercial sales of Federal crude helium, market-based prices of Federal refined helium to Federal customers, higher fees for services to private customers, a mechanism to cancel the helium debt, and termination of some activities.

New commercial sales of crude helium would be conducted in a manner similar to the ongoing orderly sales of surplus commodities from the National Defense Stockpile.

We maintain that these program adjustments, consistent with the recommendations of the National Performance Review, are the most constructive means to undertake program reform. Accordingly, the Administration cannot support H.R. 3967 in its present form.

The following specific recommendations are part of the National Performance Review. Number one, a mechanism is established to cancel the helium debt if doing so is deemed to be in the national interest. It is important that the issue of the debt be addressed. The General Accounting Office and the Treasury Department have characterized the debt as a bookkeeping transaction between two Federal agencies with no impact on the deficit or national debt.

GAO recommended helium debt cancellation to this subcommittee at the oversight hearing on May 20, 1993. H.R. 3967 appears to freeze the debt at the \$1.3 billion level and to establish a debt retirement mechanism that would reduce it by about \$12 million

per year in constant dollars. We believe we can do at least as well under our program reforms.

Number two, coincident with debt elimination, the National Performance Review would establish market-based pricing for Federal customers. The current Federal price is slightly above private-sector prices.

H.R. 3967 proposes to terminate the Federal refining of stockpiled crude helium within 1 year of enactment. Thereafter, commercial refiners would provide for the needs of Federal customers, but they would be required to purchase compensating volumes of Federal crude helium using a debt-to-volume calculation that would double the current cost to a refiner when compared to purchasing crude helium on the open market.

This requirement could be expected to exert significant economic pressure on the long-term price structure charged Federal customers for commercially-refined helium. It would establish a floor price and over time result in a price to Federal customers independent of market conditions.

Number three, the National Performance Review expects the Bureau of Mines to reduce costs and increase efficiencies by discontinuing non-revenue-producing operations. H.R. 3967 would terminate all production, marketing and refining activities within 1 year of enactment.

Federal customers have raised concerns that the sudden termination of helium refining could prevent the adequate and timely delivery of refined helium to meet their specialized needs. NASA, for example, uses gaseous helium rather than liquid helium. To meet NASA requirements, private industry would have to make significant investments in necessary production and transportation equipment.

If commercial suppliers of refined helium do not develop these capabilities within 1 year, Federal customers could face serious shortfalls that directly affect ongoing programs. Meeting those needs will be particularly difficult given that the U.S. Bureau of Mines refining facilities would be in use during that 1-year period and therefore would not be available for sale to commercial refiners.

Number four, both the National Performance Review and H.R. 3967 would increase fees charged to private industry for storage withdrawal and transmission of privately-owned helium stored in the Government reservoir to reflect the value of providing such services.

Number five, the National Performance Review recommends new commercial sales of crude helium from the reserve as market conditions permit. Sales of helium from the stockpile would be conducted in a manner similar to established practices for disposal of excess commodities from the National Defense Stockpile.

Defense commodity sales utilize price and market impact guidance that includes consultation with all interested parties on the timing and amount of sales. Price and impact factors are constantly monitored with optimum revenue expectations in mind. If bid expectations are not met, no sales are made.

During 1993 this market impact test has been successfully applied to the sale of 40 commodities ranging from diamonds to tin

to generate about \$322 million in revenues for the Treasury. The National Performance Review estimates about \$6 million in additional revenues will result each year from new commercial sales of helium.

H.R. 3967 appears to inhibit Federal crude helium sales on the open market for 20–30 years. When such sales occur 20 or 30 years from now, disposal of all remaining crude helium in the stockpile except for 400 million cubic feet will have to be accomplished in 5–10 years under terms intended to simultaneously retire up to \$1 billion in remaining debt while minimizing market disruption. We believe this provision will not work as intended.

Mr. Chairman, this concludes my prepared remarks. I will be pleased to respond to any questions from the subcommittee.

Accompanying my statement is a section-by-section analysis of H.R. 3967 that identifies additional technical concerns we have with the bill. We would be pleased to work with the subcommittee in redrafting certain provisions of H.R. 3967.

[Prepared statement of Ms. Knopman and attachment follow:]

**Statement of
Debra Knopman
Deputy Assistant Secretary for Water and Science
Department of the Interior
before the
Subcommittee on Energy and Mineral Resources
Committee on Natural Resources
U.S. House of Representatives
April 19, 1994**

Mr. Chairman and Members of the Subcommittee:

Thank you for providing this opportunity to present the Administration's views on comprehensive Federal helium program reforms introduced by the Subcommittee Chairman, Ranking Minority Member, and the Chairman of the full Committee on March 8, 1994, as H.R. 3967, the "Helium Act of 1994". The Administration concurs with the spirit of helium program reform envisioned by H.R. 3967, and we agree on several fundamental principles to achieve common goals. First, the government's stockpile of helium is far too large and should be reduced. Second, the private sector should pay more for storage of its helium in the stockpile reservoir. Third, the helium debt must be reconciled without further interest accumulation. Finally, sound resource management practices are compatible with fiscal savings objectives.

We differ in how these principles are applied. There are no funds directly appropriated to the U.S. Bureau of Mines for the helium program. Federal customers pay for helium with funds appropriated for their programs. This will continue to be the case in the future regardless of whether helium bought by Federal customers is purified by commercial refiners, as required by H.R. 3967, or by the existing Bureau of Mines refinery. The Administration's program reforms include direct commercial sales of Federal crude helium, market-based prices of Federal refined helium to Federal customers, higher fees for services to private customers, lower employment in the Federal helium program, and the development of a mechanism to cancel the helium debt, if deemed to be in the national interest. New commercial sales of crude helium would be conducted in a manner similar to the ongoing, orderly sales of surplus commodities from the National Defense Stockpile. We maintain that these program adjustments, consistent with the recommendations of the National Performance Review, are the most constructive means to undertake program reform. Accordingly, the Administration cannot support H.R. 3967 in its present form.

Program Background

The Helium Act of 1960 authorizes the Department of the Interior, through the U.S. Bureau of Mines (USBM), to conserve, buy, store, produce and sell helium to meet Federal and other needs. The objectives of the Act were to conserve helium for future use, provide a sustained supply of helium to meet Federal needs, and encourage individual enterprise in the development and distribution of helium. These mandates have been fulfilled and are being maintained. Approximately \$22.7 million was appropriated to Federal agencies to buy 293 million cubic feet (MMcf) of helium in fiscal year 1993. Of that amount, \$15.7 million funded operations of the helium program, \$4.4 million paid freight costs, and \$2.6 million was returned to the Treasury. Non-Federal sales and fees of \$5.5 million and use of cash reserves brought the total amount returned to the Treasury in fiscal year 1993 to \$10 million.

National Performance Review Recommendations

Our path for program reform is based on National Performance Review recommendations contained in Title VII of H.R. 3400, the "Government Reform and Savings Act of 1993", as introduced. The full Committee deleted the helium provisions from H.R. 3400 on November 10, 1993, deferring consideration of changes to the Helium Act of 1960 until now.

Collectively, the National Performance Review recommendations for the helium program are expected to yield, through savings and increased revenues, \$47 million by 1999. Of that amount, revenue over 6 fiscal years from the commercial sales of crude helium is estimated to be \$35 million, based on a projection of additional annual sales of 300 million cubic feet. The following specific program reforms are part of the National Performance Review:

1. The National Performance Review recommends the development of a mechanism to cancel the outstanding principal and interest of the helium debt, if deemed to be in the national interest.

It is important that the issue of the debt be addressed. The debt resulted from loans from the Treasury Department to the Department of the Interior to purchase crude helium to meet the requirements of the Helium Act of 1960 to establish a long-term helium stockpile. The 1960 Act requires that this debt, plus accrued interest, be repaid to the Treasury by 1995 from revenues from helium sales. Revenues over time have been less than expected at the time the Act was passed and the debt has grown to approximately \$1.3 billion at the end of fiscal year 1993. Of this amount, more than \$1 billion is interest on these loans.

The General Accounting Office (GAO) and the Treasury Department have characterized the debt as a bookkeeping transaction between two federal agencies with no impact on the deficit or national debt. The GAO recommended helium debt cancellation to this Subcommittee at the oversight hearing on May 20, 1993. The Congress has already established a number of mechanisms for canceling similar debts in other programs.

H.R. 3967 appears to freeze the debt at the \$1.3 billion level and to establish a debt retirement mechanism that would only reduce it by about \$12 million per year in constant dollars. Annual adjustments would track the Consumer Price Index, but these would not significantly accelerate repayment levels. We are confident that under our program reforms we can meet a similar repayment schedule from sales to Federal customers and additional sales of helium to private users. Federal debt repayments by the USBM have totalled more than \$40 million over the past five years.

2. Coincident with debt elimination, the National Performance Review would reduce Federal helium prices. Price reduction will result in lower outlays by Federal customers and an equal reduction in revenues returned to the Treasury from Bureau sales. Current USBM refined helium prices are estimated to be slightly above private sector prices. Price comparisons and adjustments should be made annually to encourage price comparability with the private sector. However, it is not our intention to undermine private sector sales.

H.R. 3967 proposes to terminate the Federal refining of stockpiled crude helium within one year of enactment. Thereafter, commercial refiners would provide for the needs of Federal customers, but they would be required to purchase compensating volumes of Federal crude helium using a debt-to-volume calculation that could double the current cost to a refiner of purchasing crude helium on the open market. The price of Federal refined helium to Federal customers is now \$55 per thousand cubic feet (Mcf). The market price for crude helium is now about \$20 per Mcf. Under H.R. 3967, this feedstock cost to a commercial refiner would rise to about \$40 per Mcf. This requirement could be expected to exert significant economic pressure on the long-term price structure charged Federal customers for commercially refined helium. It would establish a floor price that over time would result in a price to Federal customers that would be independent of market conditions.

3. The National Performance Review expects the Bureau of Mines to reduce costs and increase efficiencies by discontinuing operations such as small cylinder filling, maintenance and testing, and other non-revenue producing operations.

H.R. 3967 would terminate all production, marketing and refining activities within one year of enactment. Federal customers have also raised concerns that the sudden termination of helium refining could prevent the adequate and timely delivery of refined helium to meet the specialized needs of many Federal customers. NASA, for example, uses gaseous helium rather than liquid helium. To meet NASA requirements, private industry

would have to make significant investments in necessary production and transportation equipment. If commercial suppliers of refined helium do not develop these capabilities within one year, Federal customers could face serious shortfalls that directly affect ongoing programs. Meeting those needs will be particularly difficult given that USBM refining facilities would be in use during that one year period and therefore would not be available for sale to commercial refiners.

4. The National Performance Review would increase fees charged to private industry for storage, withdrawal and transmission of privately-owned helium stored in the government reservoir to reflect the value of providing such services. H.R. 3967 would also increase fees.

5. The National Performance Review authorizes new commercial sales of crude helium from the reserve as market conditions permit. Sales of helium from the stockpile would be conducted in a manner similar to established practices for disposal of excess commodities from the National Defense Stockpile. Defense commodity sales utilize price and market impact guidance that includes consultation with all interested parties on the timing, and amount, of sales. Price and other factors that would affect the volume of sales are constantly monitored in order to achieve optimum revenues. If bid expectations are not met, no sales are made. During 1993, this market impact test has been successfully applied to the sale of 40 commodities ranging from diamonds to tin to generate about \$322 million in revenues for the Treasury. The National Performance Review estimates about \$6 million in additional revenues will result each year from new commercial sales of helium. There are 32 billion cubic feet (Bcf) of Federal helium in storage. Orderly sales of additional volumes can gradually reduce the present Federal inventory which is currently sufficient to meet Federal customer needs for more than a century at 1993 consumption rates. In fiscal year 1993, one-third of the world's supply of helium was redelivered from the government-maintained storage field which would remain a Federal responsibility under H.R. 3967.

H.R. 3967 appears to inhibit Federal crude helium sales on the open market for 20 to 30 years. When such sales occur 20 or 30 years from now, disposal of all remaining crude helium in the stockpile, except for 600 million cubic feet, would have to be accomplished in five to ten years under terms intended to simultaneously retire up to \$1 billion in remaining debt while minimizing market disruption. We believe this provision would not work as intended. Assuming present Federal customer consumption rates will be maintained for the next 20 years, about 26 billion cubic feet of crude helium would remain in the Federal stockpile in 2014. As much as four or five billion cubic feet of Federal crude helium would have to be sold annually, over a 5-year schedule, well above current consumption levels for the entire world. Even the ten year alternative sales period provided would require annual sales in excess of 2 billion cubic feet and still could overwhelm the market. We believe taxpayer interest is best served if orderly sales following guidelines for the disposal of surplus defense stockpile commodities begin as soon as possible.

Mr. Chairman, this concludes my prepared remarks. I will be pleased to respond to any questions from the Subcommittee. Accompanying my statement is a section-by-section analysis of H.R. 3967 that identifies additional, technical concerns we have with the bill. We would be pleased to work with the Subcommittee in redrafting certain provisions of H.R. 3967.

Section-by-Section Analysis of H.R. 3967

Section 1 cites the short title of H.R. 3967 as the "Helium Act of 1994."

Section 2 provides that references made by H.R. 3967 are to modify or repeal provisions of the Helium Act of 1960 (50 U.S.C. 167 to 167n) unless otherwise expressly identified.

Section 3 restructures the authority of the Secretary of the Interior, particularly in requiring the termination of producing, refining and marketing of refined helium after one year, disposal of facilities, and fee increases, as follows:

- o The Secretary may allow private parties to recover and sell helium produced from Federal lands and may grant leasehold rights to such private parties. Existing rights under affected Federal oil and gas leases and helium production agreements would be protected.

Comment: Restricting the Secretary from entering into agreements for ownership of helium produced on Federal lands seems unnecessary and may restrict competition.

- o Authority is provided to monitor and publish reports on domestic helium production and reserves, consistent with existing practices.
- o Helium storage and transmission functions will be maintained in the future. Some of the present storage contracts do not terminate until 2007. These contracts require that the crude helium redelivered to the contractors contain at least 50 percent helium. USBM processing facilities, to be closed within 1 year, are used to verify crude helium content for redelivery. As more mixing of gases occurs in the storage reservoir, hydrocarbon content of the produced crude helium is expected to increase.

Comment: Mixing will likely require a future cryogenic capability to separate the hydrocarbons from the crude helium.

- o Production, refining, and marketing of refined helium is to cease within one year of enactment.

Comment: The one-year period may not be adequate for all USBM customers to arrange for alternate suppliers and for the changeover of equipment that may be necessary to regasify liquid helium transported commercially.

- o All USBM helium facilities, equipment, and property except those used in the storage and transportation of crude helium, are to be disposed of within one year of enactment under standard government disposal procedures. Revenue from sales shall be applied to the helium production fund to be capped at \$2 million annually. The fund shall be used to pay for closure costs.

Comment: This provision implies that disposal of the equipment can take place concurrently with production of helium. These events are sequential. After shutdown of production facilities, complete disposal of all equipment and termination of all personnel, except those operating the crude storage system, may require up to two additional years.

- o Refined helium will be supplied to contractors "until the date on which the facilities...are disposed of."

Comment: Disposal of equipment cannot be completed simultaneously with production operations.

- o Full recovery of costs for the operation of the crude helium storage system is required.

Comment: The recovery-of-cost language may be unnecessarily restrictive and appears to be in conflict with OMB Circular No. A-25 (July 8, 1993) which, in paragraph (2)(b), states that "user charges need not be limited to the recovery of full cost and may yield net revenues." The service provided to private industry by the storage system may be more valuable than current charges as specified by contract, or costs, now allocated to the operation of that system. This language appears to prevent the government from recovering full market value for these services.

Section 4 restructures sales and pricing policies, as follows:

- o Federal agencies must purchase helium from persons who have entered into an enforceable contract with the Secretary to purchase an equivalent amount of crude helium.

Comment: This requirement restricts the number of suppliers of Federal agencies to only those who own or have access to helium purification plants.

- o The Secretary is prohibited from making "sales of crude helium...in such amounts as will disrupt the market price of crude helium."

Comment: This is a subjective determination as to how and when sales under this provision could be made and should be expressed in a context similar to sales of surplus commodities from the National Defense Stockpile.

- o A new price-setting method for sales of crude to those persons supplying helium to Federal agencies is established. Interest on the debt would no longer accrue, and the price of crude would be determined by dividing the debt as of October 1, 1993, by the volume of crude helium owned by the Federal government that is in storage. This would result in a price for crude helium of about \$40 per Mcf. After December 31, 1993, the price of crude helium would be adjusted by the amount of increase in the Consumer Price Index (CPI).
- o Revenues in excess of amounts necessary to maintain a \$2 million balance in the helium production fund will go to the Treasury.

Section 5 sets requirements for stockpile disposal as follows:

- o The Secretary is directed to review the status of helium reserves no later than January 2014. If domestic reserves are less than 1 billion cubic feet (Bcf), then the Secretary will conduct sales of crude to reduce the stockpile to 600 million cubic feet (MMcf).

Comment: It is highly probable that reserves will remain above 1 Bcf by 2014. Wyoming reserves are estimated at over 100 Bcf and production of helium is currently occurring at a rate of about 1 Bcf per year. The limit of 600 MMcf of helium in storage is only a 2-year supply at the present consumption rate. Disposal is to be completed in five years and may be extended by another five years to address minimum market disruption and full debt repayment expectations. Assuming present Federal customer consumption rates will be maintained for the next 20 to 30 years, about 26 Bcf of crude helium will remain in the Federal stockpile in 2014. As much as 4 or 5 Bcf of Federal crude helium would have to be sold annually, well above current world consumption levels. Even the ten year alternative sales period provided could require annual sales in excess of 2 Bcf and still overwhelm the market. Crude helium reserves could be significant in the future even without new discoveries. In addition, crude helium is still likely to be available in flowing natural gas streams. Each factor could significantly suppress future prices through displacement and excess production.

- o Disposal of the helium reserve, except for the 600 MMcf, is required without regard to prevailing conditions in the years 2014-2024.

Comment: Our concerns are the same as in the previous section offering an optional ten year sales period.

- o Sales from the reserve shall be made after 2014 irrespective of the discovery of any new helium reserves.

Comment: This provision could displace the sale of crude in flowing natural streams then in service and discourage prudent resource utilization.

Section 6 repeals the authority to borrow funds for program activities and the authority to encourage the establishment of private sector helium production and distribution capabilities.

Mr. LEHMAN. Thank you very much for your testimony. Next we will hear from Mr. Blum.

STATEMENT OF JAMES L. BLUM

Mr. BLUM. Thank you, Mr. Chairman, and members of the subcommittee. I appreciate the opportunity to discuss the budgetary impacts of H.R. 3967. I will limit my remarks to a brief opening overview of what is contained in my prepared statement and ask that the statement be included in the record.

Mr. LEHMAN. Certainly, and we thank you.

Mr. BLUM. The statement starts off with a brief explanation of the Congressional Budget Office's current baseline estimate for the helium fund, which is a public enterprise revolving fund in the Bureau of Mines. This gives us the base from which we start to develop any cost estimate of the impact of the bill. These baseline projections, which are shown in Table 1 on page 3 of the prepared statement, are what lie behind the budget resolution that both the House and the Senate have passed and that is now in conference.

Table 2 on page 6 of my prepared statement gives CBO's estimate of the impact of H.R. 3967 on outlays of the Federal helium fund. Since the helium fund is a public enterprise revolving fund and, as noted, does not receive annual appropriations, any authorizing legislation that would have an impact on the fund would be charged to the pay-as-you-go (PAYGO) scorecard now in place under the Budget Enforcement Act. We estimate that the bill, in effect, would produce savings on the PAYGO scorecard over the current budgetary projection period—that is, Fiscal Years 1995 through 1999.

The assumptions that lie behind this cost estimate are detailed in my prepared statement. The essential ones are that the enactment of this legislation would be on or about the beginning of Fiscal Year 1995 and that the actual shutdown of helium production would occur a year later. So in effect, there would be no impact on the 1995 budget. Rather, the impact would begin in 1996 and would produce fairly small savings on a net basis, on the order of less than \$10 million a year.

The major budgetary impact would occur, of course, well beyond the 5-year estimating period, with the sale of the reserve commencing in the year 2014. Our estimate is that there would still be about 25 billion cubic feet of crude helium left in the reserve at that time.

We did not undertake any kind of specific economic analysis as to what might happen that far in the future; at this point an analysis like that would be speculative. We wish to note, however, that the Federal Government's sales of helium at that time would constitute a substantial portion of the overall helium market and that there is a risk that large Government sales could drive prices down and limit the return from the helium sales.

This concludes my brief overview, Mr. Chairman.

[Prepared statement of Mr. Blum follows:]

CBO TESTIMONY

Statement of
James L. Blum
Deputy Director
Congressional Budget Office

on
H.R. 3967, the Helium Act of 1994

before the
Subcommittee on Energy and Mineral Resources
Committee on Natural Resources
U.S. House of Representatives

April 19, 1994

NOTICE

This statement is not available for
public release until it is delivered
at 10:00 a.m. (EDT), Tuesday,
April 19, 1994.



CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to discuss the budgetary impacts of H.R. 3967, the Helium Act of 1994. The bill would amend the Helium Act to prohibit the Bureau of Mines from refining helium and selling refined helium, require the Secretary of the Interior to dispose of the United States' helium facilities and the federal helium reserve, and make other changes in the federal role in helium production. My statement will discuss the budgetary effects of the bill. I will outline the Congressional Budget Office's (CBO's) current baseline projections for the Bureau of Mines' helium program and present our analysis of the budgetary impact of the bill over the 1995-1999 period.

THE FEDERAL HELIUM PROGRAM

The United States has a crude helium reserve of about 31 billion cubic feet. This stockpile was acquired through purchases from private firms in the 1960s and 1970s and is maintained in the Cliffside Reservoir in Texas. Under the authority of the Helium Act Amendments of 1960, the federal helium program within the Bureau of Mines currently produces and refines helium for sale. The volume of federal sales is usually about 300 million cubic feet annually. Most of the sales are to other federal agencies (either directly or through intermediary contracts), primarily the National Aeronautics and Space Administration, the Department of Defense, and the Department of Energy.

CBO's current baseline estimates assume that the helium program will continue to refine helium and sell the refined product to other federal agencies at current rates. These sales will bring in about \$20 million per year. We estimate that the program will earn additional revenues, totaling \$10 million to \$13 million a year, from sales to nonfederal entities and from contract fees related to the right to extract helium from natural gas produced on federal lands. These estimates are based on the agency's plans as described in the President's budget for fiscal year 1995, which indicated that the helium program will begin to raise storage and transportation fees, lower the price it charges federal agencies for refined helium, and sell small amounts of crude helium from the reserve. These changes are to begin in fiscal year 1995.

CBO estimates that operating costs for the helium fund will be about \$21 million in fiscal year 1995, rising to about \$24 million in fiscal year 1999. Capital expenditures will add another \$1 million a year. The net budgetary impact under current law will be negative net outlays--or net receipts to the fund--of about \$8 million a year (see Table 1).

TABLE 1. CBO BASELINE ESTIMATE FOR THE FEDERAL HELIUM FUND
(By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	1999
Expenses						
Operating Costs	20	21	22	22	23	24
Capital Expenses	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>
Total	21	22	23	23	24	25
Income						
Sales to Federal Agencies	21	20	20	20	20	20
Sales to Nonfederal Entities	5	5	5	6	7	7
Contract Fees for Extracting Helium on Federal Lands	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-6</u>	<u>-6</u>	<u>-6</u>
Total	31	30	31	32	33	33
Net Outlays						
Outlays (Expenses Less Income)	-10	-8	-8	-8	-8	-8

SOURCE: Congressional Budget Office.

H.R. 3967, THE HELIUM ACT OF 1994

H.R. 3967 would direct the Secretary of the Interior to stop producing, refining, and marketing refined helium and would require the Secretary to dispose of all facilities associated with producing and refining helium. The bill would permit the Secretary to grant leasehold rights to helium on federal lands, sell crude helium from the federal reserve, and maintain the federal storage and transportation system for crude helium. H.R. 3967 would require

the Secretary to charge private users of the storage system fees sufficient to cover the costs of maintaining the system and to sell crude helium at rates that would not disrupt the market price for helium. The bill would require any private helium producer selling refined helium to federal customers to purchase crude helium from the federal reserve at a price determined by a formula, which involves the amount of the helium fund's outstanding debt to the Treasury as of October 1, 1993, and the quantity of crude helium stored in the federal reserve at Cliffside. Finally, the bill would provide for eliminating the helium stockpile beginning in the year 2014.

For purposes of developing an estimate of the bill's budgetary impact, CBO has assumed that H.R. 3967 would be enacted on or about October 1, 1994, and that federal production of refined helium would end a year later. We have also assumed that the government's sales of crude helium would begin a year after enactment of the bill—about when the federal refining activities cease. CBO anticipates that there would not be a market for federal crude helium beyond the sales of crude helium that the bill would require as a condition of the contract for sales of refined helium to federal agencies (about 300 million cubic feet annually). Based on the formula established in the bill, CBO estimates that the price of crude helium from the reserve would be about \$40 per thousand cubic feet initially, rising to about

\$42 per thousand cubic feet by fiscal year 1999. We do not expect federal leasing arrangements to change as a result of H.R. 3967.

THE BUDGETARY IMPACT OF H.R. 3967

As a public enterprise fund that is not controlled by appropriation action, the federal helium fund is subject to the pay-as-you-go (PAYGO) procedures of the Budget Enforcement Act. Consequently, any changes to the cash flow of the program mandated by authorizing legislation would be recorded on the PAYGO scorecard. CBO estimates that the changes in federal helium operations resulting from enactment of H.R. 3967 would produce a savings to the helium fund of about \$25 million in its ongoing operations over fiscal years 1995 through 1999, plus receipts of less than \$10 million from the sale of facilities and equipment related to the refining activities (see Table 2). Under standard scorekeeping procedures, the receipts from this sale of facilities and equipment would not be counted for PAYGO scoring.

Eliminating the sales of refined helium would result in a loss of revenues to the helium fund of about \$25 million annually. These losses would be more than offset, however, by savings from eliminating the production costs for refining, producing, and marketing helium (about

TABLE 2. THE BUDGETARY IMPACT OF H.R. 3967 ON THE FEDERAL HELIUM FUND, RELATIVE TO THE CBO BASELINE
(By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	1999
CBO Baseline						
Expenses	21	22	23	23	24	25
Income	<u>31</u>	<u>30</u>	<u>31</u>	<u>32</u>	<u>33</u>	<u>33</u>
Net Outlays	-10	-8	-8	-8	-8	-8
H.R. 3967						
Expenses	21	22	7	4	4	4
Income ^a	<u>31</u>	<u>30</u>	<u>18</u>	<u>19</u>	<u>19</u>	<u>20</u>
Net Outlays	-10	-8	-12	-15	-15	-16
Difference						
Expenses	0	0	-16	-20	-20	-21
Income ^a	<u>0</u>	<u>0</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>
Net Outlays	0	0	-4	-7	-7	-8

SOURCE: Congressional Budget Office.

a. Does not include proceeds from the sale of facilities and equipment, which would amount to less than \$10 million and would not count for PAYGO scoring.

\$20 million annually) and new revenues from selling crude helium (about \$11 million annually, once the new system is in place). The program would incur about \$3 million in severance costs for employees who would be released, contract termination penalties, and other costs associated with ceasing production and closing down the federal facilities. Nevertheless, the

effect of the bill would be an increase in the net receipts of the helium fund, appearing as a decrease in net outlays on the budget, of about \$7 million a year once the initial costs are incurred.

Based on previous studies of the issue for the Bureau of Mines, CBO estimates that the proceeds from the sale of facilities, equipment, and property held by the United States for the purpose of producing, refining, and marketing helium would total less than \$10 million. We estimate that these sales would come from sales of equipment (such as railroad cars), rather than from the sale of helium facilities, which probably have little more than scrap value.

H.R. 3967 could also have a budgetary impact by affecting the price that federal agencies will have to pay for helium. Under the bill, federal agencies would purchase refined helium from private suppliers using a competitive bidding process, instead of buying it from the federal helium program. If the total price for helium and delivery increases, federal agencies would have higher outlays for the purchase of helium and might have to request additional appropriations. CBO estimates that any such change in costs would be minor.

Finally, the major budgetary impact of H.R. 3967 would occur well beyond the normal five-year estimating period. The bill would direct the Secretary of the Interior to dispose of the government's stockpile of crude helium beginning in the year 2014. If, as is likely, the country's domestic helium reserves (other than the federally owned helium at the Cliffside Reservoir) exceed 1 billion cubic feet in 2014, the Secretary would be required to sell most of the helium within 10 years. Assuming that the Interior Department will be selling about 300 million cubic feet a year over the period from 1995 to 2014, the government's reserve would still contain about 25 billion cubic feet of crude helium at the end of the period. Forecasting prices that far in the future is a very speculative enterprise, particularly because the government sales would compose a substantial portion of the overall helium market. There is a risk that large government sales could drive prices down and limit the returns from the helium sales.

Mr. LEHMAN. Thank you.
Mr. Anderson.

STATEMENT OF JOHN H. ANDERSON, JR.

Mr. ANDERSON. Yes. I, too, would like to summarize my statement and ask that the entire statement be entered into the record.

Mr. LEHMAN. Good, and it is good to know that not everybody over there is working on health care.

Mr. ANDERSON. Mr. Chairman and members of the subcommittee, I am pleased to be here today for the subcommittee's hearing on H.R. 3967, a bill to amend the Helium Act of 1960 to prohibit the Department of the Interior's Bureau of Mines from refining helium and selling it and to dispose of the U.S. helium inventory.

With me today are Bob Wilson and Len Ellis.

My remarks today will draw on our October 30, 1992, report.

The Helium Act of 1960 was passed in response to growing Federal needs for helium. The Act authorizes Interior to conserve, buy, store, produce, and sell helium to meet Federal and other needs. Clearly, many of the conditions that existed when the Congress passed the 1960 Act have changed. Because these changes affected the Act's objectives and the Bureau's ability to repay the Helium Program debt, our October 1992 report recommended that the Congress reassess how to meet current and foreseeable Federal needs for helium and that the program debt be canceled.

Now let me turn to H.R. 3967. Under this bill, the Bureau would cease refining crude helium and selling refined helium. The Bureau would sell crude helium to industry in the amount needed to meet the refined helium needs of Federal agencies which would be required to buy that helium from private industry. The Helium Program debt would be frozen at its October 1993 level, and revenues from Bureau sales of crude helium to private industry and the sale of the Bureau's refining assets would go to repayment of the program debt, and beginning no later than 2014, Bureau crude helium in excess of Federal needs would be sold, but a crude helium inventory would be retained.

Now I would like to focus my remarks on how H.R. 3967 would affect the Federal budget and the Helium Program's debt. The Bureau recovers its operating expenses, such as wages and utilities, through sales to Federal agencies. Because its capital and inventory expenses were previously recorded in the Federal budget as outlays, they are not included in the Bureau's operating costs. To the extent that the Bureau's revenues from helium sales to Federal agencies exceed its operating expenses, these excess funds flow from the U.S. Treasury through the agencies, through the Bureau, and back to the Treasury. The Bureau's operating expenses are the only current outlay of Federal funds.

Under H.R. 3967 budgetary savings will be achieved if private industry sells refined helium to Federal customers at a price, exclusive of the cost of the crude helium that will be purchased from the Bureau, that is lower than the Bureau's operating costs. Budgetary savings could also occur if the Bureau reduced its operating costs.

We have not, however, reviewed the ability of private industry to meet Federal needs at such a price nor the efficiency of the Bureau's Helium Program.

The cost to private industry of crude helium that it will purchase from the Bureau to meet Federal users' needs will not be a budgetary factor because that cost will be passed on to Federal customers as part of the price for refined helium. This will result in a wash transaction in the overall Federal budget. The Bureau revenues from the sale of crude helium will be offset by the portion of the price Federal customers pay to private industry for refined helium.

It should be recognized that beginning no later than 2014 when more Federal crude helium is being sold than is needed to meet Federal customers' needs, there would be additional Federal revenues but the private crude helium marketplace could be impacted.

Concerning the program's debt, the 1960 Act required that the program's net capital and retained earnings, valued at about \$40 million, plus subsequent program borrowing from the U.S. Treasury for purchases of crude helium which total about \$252 million, be established as debt in the helium fund. The Act required that this debt plus compound interest be repaid to the U.S. Treasury by 1995 from helium sales revenues.

Because the Bureau did not set its sale price to Federal agencies high enough to recover the initial program costs and subsequent interest, the debt in the helium fund has grown to about \$1.3 billion as of February 1994. About \$1 billion of this debt is interest. However, none of this debt represents current outlays by the Federal Government. The \$40 million for net capital and retained earnings represented funds that were appropriated and recorded in the budget as outlays since 1925 when the Bureau began supplying helium to Federal users.

The \$252 million for crude helium purchases and storage in the 1960s and 1970s were appropriated funds, recorded in the Federal budget as outlays in the years in which the funds were expended. Furthermore, the portion of the Helium Program debt that is interest is not, nor has it ever been, an outlay by the Federal Government. Whether the debt is repaid or canceled, the result is merely a paper transaction that has no effect on the Federal budget or on taxpayers.

Furthermore, it should be noted that the Bureau's legislatively-mandated purchase and holding of such a large inventory of raw material, the Federal helium inventory, is not normal business practice. The \$252 million used to purchase this inventory was to meet a policy objective of the Act—conservation.

To repay any part of the program debt, the Bureau must receive funds in excess of its operating costs which can then be returned to the U.S. Treasury. H.R. 3967 would return revenues in excess of Bureau costs, thereby repaying the Helium Program debt through the sale of the Federal helium inventory.

Bureau crude helium would be sold to the private helium refining industry annually until at least 2014, in a quantity approximately equal to annual Federal needs for refined helium, and beginning no later than 2014, all but about 600 million cubic feet of the remaining inventory would be sold in the marketplace. Revenues from all crude helium sales would be recorded as reducing the program debt. In either case, the higher the price that the Bureau

obtains for the crude helium, the higher the revenues and the faster and more completely the debt can be repaid.

Sale of the Bureau's refining assets would also generate revenues that would go toward repaying program debt. However, these assets may be of little more than scrap value and therefore should not be expected to generate significant revenues.

In summary, Mr. Chairman, choosing between the Bureau program and private industry to meet Federal needs for helium is a public policy decision. We believe that H.R. 3967 provides a viable means of meeting current and foreseeable Federal needs for helium with the potential for budgetary savings and repayment of the debt.

This concludes my statement, and we will be happy to answer any questions.

[Prepared statement of Mr. Anderson follows:]

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MINERAL RESOURCES

H.R. 3967 - A Bill to Change
How Federal Needs for
Refined Helium Are Met

Statement of John H. Anderson, Jr., Associate Director
Natural Resources Management Issues,
Resources, Community, and Economic Development Division



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today for the Subcommittee's hearing on H.R. 3967, a bill to amend the Helium Act of 1960 to prohibit the Department of the Interior's Bureau of Mines from refining helium and selling it and to dispose of the U.S. helium inventory. My remarks will draw on our October 30, 1992, report on meeting federal needs for helium¹ in which, among other things, we recommended that the Congress reassess how to meet current and foreseeable federal needs for helium.

In summary, Mr. Chairman, H.R. 3967 changes how federal needs for helium will be met by terminating the Bureau's refining capability and shifting the refining of federal helium to private industry. In addition, the bill provides for repayment of the helium program debt. Whether the federal budget will be adversely or favorably affected by enactment of H.R. 3967 will depend on whether private industry can sell refined helium to federal customers at a price that results in lower net outlays than the Bureau's current operating costs. In addition, the budgetary effects will depend on the revenues that the Bureau receives from disposing of the helium inventory. Choosing between the Bureau program and private industry to meet federal needs for helium is ultimately a public policy decision. We believe that H.R. 3967 provides a viable alternative for meeting current and foreseeable federal needs for helium with the potential for budgetary savings and repayment of the helium program debt. Before discussing the bill in detail, I would like to provide some background on the Bureau's program.

¹Mineral Resources: Meeting Federal Needs for Helium (GAO/RCED-93-1, Oct. 30, 1992).

BACKGROUND

Helium is an element that occurs naturally in gaseous form. It is recovered from certain natural gas fields; in the United States, most of those fields are located in Kansas, Oklahoma, Texas, and Wyoming. Helium is separated from natural gas and stored in a concentrated form--referred to as crude helium--until it goes through the final refining process. The federal government uses helium in, among other things, the space program and weapons systems. For example, helium is used to purge the fuel tanks and lines of the space shuttle.

The Helium Act of 1960 was passed in response to growing federal needs for helium, especially for the space program, and concern that the nation's helium reserves were being rapidly depleted as helium was vented into the atmosphere by natural gas producers. The 1960 act authorizes Interior to conserve, buy, store, produce, and sell helium to meet federal and other needs. In addition, the act requires that federal agencies purchase their major requirements for helium from the Bureau of Mines. The Bureau's refining and storage facilities are located near Amarillo, Texas.

The objectives of the 1960 act are to (1) conserve helium for future use, (2) provide a sustained supply of helium sufficient for essential government activities, and (3) foster and encourage individual enterprise in the development and distribution of helium. As we have previously reported, we believe the Bureau has acted to meet these objectives.

The 1960 act required that the program's net capital and retained earnings, valued at about \$40 million, plus subsequent program borrowing from the U.S. Treasury for purchases of crude helium, which totalled about \$252 million,

be established as debt in the Helium Fund. The act required that the helium program debt, plus compound interest, be repaid to the U.S. Treasury by 1995 from helium sales revenues. Because the Bureau did not set its sale price to federal agencies high enough to recover the initial program costs and subsequent interest, the debt in the Helium Fund had grown to about \$1.3 billion as of February 1994. About \$1 billion of this debt is interest.

Clearly, many of the conditions that existed when the Congress passed the Helium Act of 1960 have changed. In 1960, the Bureau was the sole producer of refined helium, but now a private helium industry supplies almost 90 percent of refined U.S. helium and could meet federal needs for helium if there were no Bureau program. Also, in 1960 there was concern that helium conservation was necessary to ensure that federal needs could be met, but now the Bureau has enough helium in storage to meet federal needs until at least 2070. Because these changes affected the act's objectives and the Bureau's ability to repay the helium program debt, our October 1992 report recommended that the Congress reassess how to meet current and foreseeable federal needs for helium. We also recommended that the program debt be canceled because canceling the debt would not adversely affect the federal budget.

PROVISIONS OF H.R. 3967

Now let me turn to H.R. 3967, which would make the following changes for meeting current and foreseeable federal needs for helium.

- The Bureau would cease refining crude helium and selling refined helium.
- The Bureau would sell crude helium to private industry in the amount needed to meet federal agencies' refined

helium needs and the agencies would be required to buy refined helium from these industry sources.

- The helium program debt would be frozen at its October 1, 1993, level and would be at least partially repaid by revenues from the Bureau's sales of crude helium to private industry and the sale of the Bureau's refining assets.
- Beginning no later than 2014, all of the Bureau's crude helium would be sold, except for a small inventory that would be retained.
- Private industry would be required to fully reimburse the Bureau for use of the Bureau's crude helium storage.

At this time, I would like to discuss how the provisions of H.R. 3967 relate to the federal budget and the Bureau's helium program debt.

HOW H.R. 3967 WOULD AFFECT THE FEDERAL BUDGET

Under H.R. 3967, budgetary savings will be achieved if private industry sells refined helium to federal customers at a price that results in lower net outlays than the Bureau's current operating costs. The key factors in determining whether this happens are private industry's operating and capital costs, exclusive of the cost of the crude helium that will be purchased from the Bureau, and the amount of profit that industry would expect to receive.

The Bureau recovers its operating costs, such as wages and utilities, through sales to federal agencies. Because capital and inventory costs were previously recorded in the federal budget as outlays, they are not included in the program's current operating costs. To the extent that the Bureau's revenues from helium sales to federal agencies exceed

its operating costs, these excess funds flow from the U.S. Treasury, through the agencies, through the Bureau, and back to the U.S. Treasury. The Bureau's operating costs are the only outlay of federal funds and its costs are an accurate reflection of the effect on the federal budget of operating the program. If the Bureau's program were to continue, it would have to reduce its operating costs to achieve budgetary savings. We have not, however, reviewed the efficiency of the Bureau's helium program.

Private industry prices, however, would reflect capital and crude helium costs and a return on investment as well as operating costs. Therefore, the Bureau's and private industry's costs are not comparable. To achieve federal budgetary savings under H.R. 3967, private industry would have to sell refined helium to federal customers at a price, exclusive of its cost of crude helium that will be purchased from the Bureau, that is lower than the Bureau's operating costs. We have not, however, reviewed the ability of private industry to meet federal needs at such a price. When we were performing our work for our October 1992 report, we attempted to obtain private industry's costs but were unable to do so because the companies would not provide us with what they considered to be proprietary information.

The cost to private industry of the crude helium that it will purchase from the Bureau to meet federal users' needs will not affect the overall federal budget because that cost will be passed on to federal customers as part of the price for refined helium, resulting in a "wash" transaction. That is, the Bureau's revenues from the sale of crude helium will be offset by the portion of the price paid to private industry by federal customers for refined helium.

In addition, it should be recognized that beginning no later than 2014, when more federal crude helium will be sold than is needed to meet federal customers' needs, additional federal revenues will accrue, but the private crude helium marketplace likely will be impacted. When a new source of supply enters the marketplace, without an equivalent increase in demand, it is likely that the market price will be driven downward, adversely affecting crude helium producers.

REPAYMENT OF THE PROGRAM DEBT UNDER H.R. 3967

H.R. 3967 offers ways to repay a portion of the program debt. Specifically, the bill requires the sale of the federal helium inventory and the Bureau's refining assets. However, as we previously reported, the debt could be canceled outright with no effect on the federal budget.

None of the program debt represents current outlays by the federal government. The \$40 million for net capital and retained earnings represented funds that were appropriated and recorded in the federal budget as outlays since 1925, when the Bureau began supplying helium to federal users. The \$252 million for crude helium purchases and storage in the 1960s and 1970s was appropriated funds that were recorded in the federal budget as outlays in the years in which the funds were expended. Furthermore, the portion of the helium program debt that is interest is not, nor has it ever been, an outlay by the federal government. Rather, it is merely a paper transaction that has no effect on the federal budget or on taxpayers.

It should be noted that the Bureau's legislatively mandated purchase and holding of such a large inventory of raw material--the federal helium inventory--is not normal business practice. The \$252 million used to purchase this inventory

was to meet a policy objective of the 1960 act--helium conservation. Nevertheless, the act required that this cost be repaid, plus compound interest, with revenues from routine operations. Therefore, if the Bureau's inventory expenditures were to be somehow factored into current operating costs, those costs would still not be comparable to private industry's operating costs.

To repay any part of the program debt, the Bureau must receive funds, in excess of its operating costs, that can then be returned to the U.S. Treasury. H.R. 3967 would return revenues in excess of the Bureau's costs, thereby repaying the helium program debt through the sale of the federal helium inventory, but selling the inventory would not affect the federal budget because revenues will be offset by equal agency outlays. The Bureau's crude helium would be sold to the private helium refining industry annually until at least 2014, in a quantity approximately equal to annual federal needs for refined helium. Beginning no later than 2014, most of the remaining inventory would be sold in the marketplace. The revenues from all crude helium sales would be recorded as reducing the program debt. In either case, the higher the price that the Bureau obtains for the crude helium, the higher the revenues, and the faster and more completely the debt can be repaid.

In addition, the sale of the Bureau's refining assets would generate revenues that would also go toward repaying the program debt. However, these assets may have little more than scrap value, and therefore their sale should not be expected to generate significant revenues.

It should be noted that under the 1960 act, the Bureau could have paid, and theoretically still could repay the program debt by 1995 by charging federal agencies a high

enough price. Because those agencies by law must purchase their major requirements for helium from the Bureau, they would have no choice but to pay the higher price if they continued to purchase helium. However, this situation would not adversely affect the overall federal budget because if those agencies receive additional appropriations to pay for the higher-priced helium, the increased appropriations would be offset by increased revenues to the Bureau.

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In summary, Mr. Chairman, how to meet federal needs for helium is a public policy decision that should consider many issues. We believe that H.R. 3967 provides a viable means of meeting current and foreseeable federal needs for helium with the potential for budgetary savings and repayment of the helium program debt.

Mr. Chairman, this concludes my statement. We will be happy to answer any questions that you or other Members of the Subcommittee may have.

(140291)

Mr. LEHMAN. Thank you very much, and I appreciate the testimony of each of you here.

I guess we really ought to get to what the issue is here. I agree with the witnesses that the debt is really a bogus issue as far as taxpayers are concerned in the sense that it is just one hand to the other, and both hands are owned by the taxpayer, and whether or not we cancel this or leave it there on paper isn't going to make any difference.

The larger question here and the one the bill attempts to address is whether or not the Federal Government ought to be in the helium business, whether or not that is a wise policy, and what interest it serves that ought to be maintained. And going beyond that, if we decide the Federal Government should not be in the helium business, then how should the Federal Government get out of the helium business? Should it get out of the helium business in a fashion that destroys the private market and the value of the asset that it has by virtue of having been in the helium business, or should it get out in an orderly fashion that makes for a reasonable transition over an entire free market situation? And the bill we have crafted bipartisanly up here is an attempt to do the latter, to do this in an orderly fashion, not disrupt the private markets unnecessarily, and get the most that we can out of a bad situation here by protecting as much of that asset as we can.

But the authors of the bill have decided that the Federal Government ought to get out of the helium business and that this is a good time to do it, and I guess, Ms. Knopman, the Administration disagrees with that.

I notice in your testimony you suggest that we ought to lower the price. You point out that it is now sold at above market price to what is essentially a captive audience of Federal contractors who have to purchase it.

Somebody can respond to this—maybe you, Ms. Knopman. It is just beyond me how we can expect to have—we are going to emulate, I guess, a market situation in a nonmarket situation. This sector is not really part of the market since it has a captive audience and doesn't really have, as I could take lots of time here pointing out, the same kind of balance sheet that someone would have to have in the private sector in terms of what is actually factored into their costs. Obviously they don't pay taxes either. It is stretching it a little for me to say, well, we are going to have them emulate the private market here when in fact they are not in it.

Let me ask you this. Would it be wise Federal policy to allow Federal contractors to go purchase helium on the open market once we lower this to market prices rather than just be captive of the public supply?

Ms. KNOPMAN. Our feeling is that lowering the price by letting the market mechanism determine the price does the work for us by incorporating the value of the crude helium. That value is wrapped into the price itself.

Mr. LEHMAN. Okay, but what you are doing when you are lowering the price? You are lowering the return to the Government then too, right?

Ms. KNOPMAN. Yes, but we are also lowering the appropriations required by other Federal agencies to purchase that helium.

Mr. LEHMAN. Are you going to calculate the costs involved in the program in the same manner then as the private sector would calculate its costs?

Ms. KNOPMAN. Our position is that if we let the market determine the price of crude helium, then that price incorporates the cost of the crude helium at current market conditions.

What you are implying is that the debt, which we have referred to as including both the principal and the interest, must somehow be incorporated into the price in order to be recovered. That will result in a higher price. That is what we have now. That was the idea, and we raised the price; the Secretary has the authority to raise the price. That also results in higher appropriations from other Federal agencies. So it depends on which end—

Mr. LEHMAN. We have got a totally artificial thing here. You can make it market price; you can make it higher than market price. It is not going to change your market because they have to buy from you, right?

Ms. KNOPMAN. That is right, and it seems to me that it would make sense. From a taxpayer perspective, there is no reason why Federal agencies should be paying higher than market price.

Mr. LEHMAN. Let me ask Mr. Blum, Is this an asset sale as our bill is constructed? How is this treated?

Mr. BLUM. For scoring purposes, we would treat the sale of the facilities as an asset sale and eventually the sale of the whole stockpile reserve, beginning in 2014, as an asset sale. But I do not know whether those scoring rules will still be in place at that time.

Under the current asset sale scoring rules, we would not be able to give you credit for the sales on the PAYGO scorecard. Thus, the figures in Table 2, for example, do not include the less than \$10 million that we estimate might be obtained for the sale of the production facilities in 1996.

Mr. LEHMAN. Thank you.

I am going to recognize the gentlelady from Nevada right now.

Mrs. VUCANOVICH. Thank you very much, Mr. Chairman.

Ms. Knopman, you indicate that the purchase price of the helium under our bill would drive up the cost of the crude helium to the private purchaser, and yet the CBO indicates that even with that increase the bill would still save the taxpayers millions of dollars over the next several years. Doesn't that reflect in a sense the wastefulness of this program as currently configured?

Ms. KNOPMAN. I don't believe so, and I would point out that the National Performance Review recommendations also result in a savings to the taxpayers.

My reading, which I have just had the opportunity to do here, of the CBO testimony is that there would be minor impact on Federal customers by purchasing from the private sector even with the doubling of crude prices. I don't know if that is so. I don't know if we know at this point how that would work out.

It seems to me doubling the price of your feedstock would ripple through.

Mrs. VUCANOVICH. You know, we have talked about some of the functions, or at least, in some of the research we have done we have looked at some of the functions and how many jobs would be ultimately eliminated. What functions and how many jobs do you

think would be eliminated under your program if you are talking about reconfiguring or changing—

Ms. KNOPMAN. The National Performance Review recommendations were formulated at the time with Fiscal Year 1993 employment numbers. At that time there were 226 full-time equivalents (FTEs) involved in the helium operations. The Performance Review recommendation was that that number be reduced by 30 to 196 FTEs. We expect to meet, if not actually modestly exceed, that amount largely as a result of the buy-out. We are just getting numbers in as of last night, and we think that we will have no trouble meeting that number.

In terms of the actual functions, the concentration of jobs that would be eliminated would be largely in the small cylinder operations and some of the other helium resource management operations. The rest of the reductions would be across the board.

Mrs. VUCANOVICH. You know, when you look at 74 percent of the Helium Program's costs being attributed to salaries and benefits, administrative and overhead costs, it just seems to me this seems too high. Why just last night are we making changes? Do you know how any of these costs would compare to other Federal programs or why something hasn't been done before yesterday?

Ms. KNOPMAN. Let me answer the question this way. I looked at those numbers and expressed surprise as well. Then it was explained to me that the employment numbers are not just the operations that one might find in a private sector helium plant production facility, there are services that are being rendered there that are not being duplicated in the private sector.

The typical approach in industry, as it has been explained to me, is that helium is, as you know, a by-product of natural gas production, so you have got all the equipment and labor that you need for that natural gas production right there and the helium is an adjunct operation.

Mrs. VUCANOVICH. Isn't this true with private industry too?

Ms. KNOPMAN. My understanding is that the service and administrative employees are typically in some other location from the production facility. The program is administered out of Texas, out of Amarillo. We have a small staff in Washington.

Mrs. VUCANOVICH. Well, it seems to me that certainly costs should be able to be reduced.

Ms. KNOPMAN. The Administration agrees with that, and that was the principle of having that recommendation in the National Performance Review.

Mrs. VUCANOVICH. Okay. Well, I appreciate that.

Mr. Blum, what is your view of the agency's ability to repay the debt by simply having an increased appropriation, and could this be done under the budget rules that we have today?

Mr. BLUM. The repayment of the debt, as Mr. Anderson of the General Accounting Office observed, would be simply an intragovernmental payment. If you wished to retire the debt, you could, for example, have a one-time appropriation to the Department of the Interior for the express purpose of paying off the accumulated debt to the Treasury. That transaction, on a scoring basis, would have no effect on the bottom line—in terms of the deficit—because it would be simply one agency making an intra-

governmental payment to another agency. The same effect can be achieved by simply canceling the debt.

Mrs. VUCANOVICH. Just move the numbers around?

Mr. BLUM. Well, in effect, yes.

Mrs. VUCANOVICH. In preparing your estimate, did you consult with the Bureau and with industry in terms of price information and so forth, and if so, was the industry cooperative?

Mr. BLUM. Yes, it was, and yes, we did consult with industry as widely as we could in the time available.

I gave you the budgetary impact of H.R. 3967 for the helium fund only, which is essentially one part of the Government's involvement in helium. However, as Mr. Anderson pointed out, Federal agencies purchase helium, taking money from their discretionary appropriations to buy it from the Bureau of Mines. In effect, there is a total net cost to the budget each year probably on the order of \$10 million for Federal Government expenditures for helium.

On a budgetary accounting basis, the helium fund itself shows a surplus each year because it is taking in more money from Federal agencies and non-Federal sources than it is expending for its 220 employees in Texas and its other production and transmission costs. In the end, the fund's surplus offsets some of the purchases of helium by Federal agencies.

In terms of the effect of the bill on agencies, we assumed that it would have a very small effect. Agencies are now paying \$55 per thousand cubic feet for helium; I gather that the private-sector price is somewhat lower than that. Last fall, when we were doing a cost estimate of the National Performance Review recommendations, we assumed that the price would come down to, say, \$48 per thousand cubic feet.

H.R. 3967 would require private suppliers of helium to the Federal agencies to purchase an equivalent amount of crude helium from the reserve at a price governed by a formula in the bill. That price works out to about \$40 per thousand cubic feet and is geared to the amount of debt that the fund had with the Treasury at the beginning of this fiscal year as well as the amount of crude helium stored in the Cliffside reservoir.

The \$40 price is higher than the private-market price for crude helium, so that price would be passed on to the Federal agencies. But private suppliers probably have lower transportation costs than are charged now because they deliver helium more efficiently in a liquefied form rather than a gaseous state. Thus, the agencies probably are paying around \$70 per thousand cubic feet, including the transportation costs. CBO estimates that the price would stay roughly at about that level under H.R. 3967, which is about where the private-sector price would be.

Mrs. VUCANOVICH. Thank you.

Mr. Anderson, why is the Federal Government and the private-sector cost regarding outlays the basis of comparison for savings yet you argue in your testimony that they are not comparable? Is it not particularly unfair to compare them since the Bureau's price doesn't include the price of the helium purchases?

Mr. ANDERSON. That is correct, it is not a good thing to compare them, because basically what the Bureau's costs include are just its

operating costs. Its costs for the inventory and for its capital assets were paid for long ago with appropriated funds.

The private sector, though, does have operating costs, they also have capital costs, and they also have a return on investment that they need to recoup, so that is why they are really not comparable.

Now what it is going to come down to, quite frankly, is, Can the private sector provide this helium to the Federal agencies at a lesser cost than it costs the Bureau to operate the program right now.

Mrs. VUCANOVICH. Yes, well, we are getting this testimony that the debt could be repaid by increasing prices to Federal agencies, and how is this possible given the spending caps the agencies are under because of the Budget Act? I mean how could it be done this way?

Mr. ANDERSON. Well, I am not familiar about how the spending caps would work, but I did have some question about the caps that were being placed on the agencies: Would that preclude them from raising the prices too high?

Mrs. VUCANOVICH. Well, thank you all very much for your testimony. I yield back the balance of my time.

Mr. DEAL [presiding]. The chair recognizes Mr. Thomas.

Mr. THOMAS. Thank you.

I agree with the chairman that this comes down basically to a policy question of whether you want to do this in the private sector or whether you don't.

I was a little interested in the earlier testimony that was, somewhat alarmed, asking, Could the private sector supply this defense-necessary item? I guess if you can't depend on the private sector, we are in big trouble, aren't we? Aren't most of the supplies for defense provided in the private sector?

Mr. ANDERSON. Yes.

Mr. THOMAS. Why would this be any different in concept?

Mr. ANDERSON. I don't think that it would. It comes down to a policy decision.

Mr. THOMAS. Yes.

Ms. Knopman, under the reform, reinventing—whatever it is—program.

Ms. KNOPMAN. I will tell the Vice President you said that.

Mr. THOMAS. Well, "reinventing" is a nice word.

How far will this go then? Would the Government be out of the helium business under the program as it is set up?

Ms. KNOPMAN. No, not under the performance review as it is set up. It would slowly get the Government out of the maintenance of the stockpile, at least at the magnitude that it is in now.

Mr. THOMAS. But if the real question for you was whether or not it ought to be in, then this performance review would not accomplish that?

Ms. KNOPMAN. What we hoped with the performance review was that we could substantially improve the operations of the Helium Program so that this would be the best deal for the taxpayers and we would have run an efficient Government program.

Mr. THOMAS. How much of the revenues that you speak of here come from the royalties of the private production?

Ms. KNOPMAN. Mr. Blum tells me \$5 million, and I am going to believe him.

Mr. THOMAS. You say in your testimony that there are no funds directly going from the Bureau of Mines for the Helium Program.

Ms. KNOPMAN. There are no direct appropriations.

Mr. THOMAS. But the \$5 million is part of the \$30 million that you talk about as being revenues.

Ms. KNOPMAN. They are revenues that return to the Treasury.

Mr. THOMAS. Yes. They come from royalties of private production, however.

Ms. KNOPMAN. That is right.

Mr. THOMAS. And so they are a little bit different. The \$10 million is also a result of not paying anything on the capital that is invested in the operation. Isn't that true, compared to any sort of a private operation?

Ms. KNOPMAN. Of the revenues that come in annually to the Bureau of Mines, part goes to paying off the cost of operations, the balance goes back to the Treasury.

Mr. THOMAS. I guess I resist a little bit this notion that has been brought up a couple of times: Well, it will only cost us \$20 million and we get \$30 million in revenues. But that certainly isn't a comparable figure to anybody else.

Ms. KNOPMAN. No. We are not talking about net. That is the difference.

Mr. THOMAS. Yes.

I guess you would have to help me a little bit, Mr. Anderson. I am, you know, a small-business person and so on. For instance, if I wrote you a check for a billion dollars for these assets and turned it over to the Federal Government, you mean that is just a paper transaction? It means nothing?

Mr. ANDERSON. That is right, because none of those funds were appropriated. The computation of that billion dollars was just an interest rate applied to the balance, and the compounding effects cause it to build up. But, it has no effect on the budget or on taxpayers.

Mr. THOMAS. It certainly has an effect on the debt. You could take the billion dollars and pay off a billion dollars in debt, could you not?

Mr. ANDERSON. Yes, but I don't think that it has any impact in terms of whether it is going to increase the debt or anything like that, whether you pay it off or don't pay it off.

Mr. THOMAS. That is funny arithmetic, isn't it?

Mr. ANDERSON. Well, part of the problem is that, I guess, when this thing was set up and the original Act called for the repayment of the debt, it all depended on whether or not there was a budget surplus or a deficit at the time the money was actually used to buy this inventory of crude helium. And even if you assume that in every year that there was a budget deficit at that point in time, you have to ask yourself whether the purchase of this helium for other purposes, including conservation, did contribute to the deficit situation that existed then. And I don't think that you would say necessarily that it would. Defense programs, health care programs, and everything else had their share in contributing to the deficit situation too. So it is sort of a theoretical argument.

Mr. THOMAS. It certainly is theoretical, and it is beyond most of us as taxpayers, and you are a taxpayer too. Maybe you feel comfortable with it, but I don't.

There is a billion dollars' worth of assets theoretically there, right?

Mr. ANDERSON. Well, the assets original cost and the Government's helium purchases totalled about \$252 million. The billion dollars is the interest. That again is not money that was ever appropriated or expended or anything.

Mr. THOMAS. No, but the \$252 million was.

Mr. ANDERSON. Right. That is correct.

Mr. THOMAS. Well, I don't doubt what you are saying, but it is a damn strange way—if that money came in, it would seem to me there is an asset there that has some value. Isn't there?

Mr. ANDERSON. Oh, yes, there is an asset.

Mr. THOMAS. What do you do with that? If you turn it into dollars, you just act like it doesn't exist?

Mr. ANDERSON. No. You are going to be selling it. Even under the proposed legislation, you are going to be selling it and get something in return for that. That is correct.

Mr. THOMAS. And that is a plus, isn't it?

Mr. ANDERSON. Yes.

Mr. WILSON. In a sense, but part of it isn't. What is being sold and exchanged to the Federal Government at this point in time—crude helium that the Federal Government would sell to the private sector that would be, in turn, refined and sold back to the Federal Government as refined helium is a wash.

Mr. THOMAS. I don't agree with that at all.

Mr. WILSON. What I am saying is, if we sell a thousand cubic feet of crude helium to the private sector for \$40 for them to refine and pass back to us as refined helium for whatever their price is, including the \$40—

Mr. THOMAS. Yes, but those are two different things. You have a need for a product here. It costs \$40 in NASA, right? And where you get it, it is still going to be \$40. So the idea that it makes that asset useless doesn't seem to me to wash.

Mr. WILSON. I was not implying that it was useless, I was saying the Federal Government gets \$40 and in turn they pay out a price—

Mr. THOMAS. Well, if that is the case, then we ought to manufacture automobiles so that all the Government agencies would have automobiles, and therefore, there would be no cost to it. Isn't that about the same logic?

Mr. WILSON. I don't follow it that way, no, sir.

Mr. THOMAS. No, I bet you don't.

Well, at any rate, I do appreciate it. I do agree that finally it is a policy decision, and I would have to tell you that I am on the side of privatizing.

Thank you.

Mr. LEHMAN [presiding]. Thank you.

Mr. DEAL, any questions?

Mr. DEAL. No, Mr. Chairman.

Mr. LEHMAN. Thank you.

Let me just ask one question here to get the answer on the record, and that is this. Is the private sector capable of filling the Federal need for helium? Does anybody want to take a shot at that? Go ahead?

Mr. ANDERSON. In my opinion, it is. I believe that. You know, it is interesting that in the 1960 Act, one of the objectives was to stimulate the private sector in this regard. I think it has met that, and I think the private sector could do it.

Mr. LEHMAN. Thank you.

Does anybody else want to respond?

Ms. KNOPMAN. I would just answer in much the same way except that with a qualifier that the industry would need to make adjustments. If you took a snapshot at the present time, they are not in a position to fill all those needs, given the difference in liquid and gas transportation.

Mr. LEHMAN. Thank you very much. I appreciate the time you took with us this morning and look forward to working with you as we proceed.

Mr. LEHMAN. Now we will bring up panel two, and that will be Mr. Carl Johnson, the chairman of the Helium Advisory Council, the Compressed Gas Association; Mr. David Fairbanks from the Amarillo Chamber of Commerce; and Mr. Dennis Mills, a union member with the Oil, Chemical, and Atomic Workers International Union, also from Amarillo, Texas.

Let's start with Mr. Johnson, and the same rules will apply, the five-minute rule, and we will put your full statement in the record and ask you to proceed. It is good to see you again.

PANEL CONSISTING OF CARL T. JOHNSON, CHAIRMAN, HELIUM ADVISORY COUNCIL, COMPRESSED GAS ASSOCIATION, INC., ACCOMPANIED BY HARRY GALPIN, MESA, AND J. BENJAMIN REINOEHL, DIRECTOR, BUSINESS DEVELOPMENT, AIR PRODUCTS AND CHEMICALS, INC.; DAVID FAIRBANKS, REPRESENTATIVE, AMARILLO CHAMBER OF COMMERCE; AND DENNIS MILLS, UNION WORKER, OIL, CHEMICAL, AND ATOMIC WORKERS INTERNATIONAL UNION, AFL-CIO, AMARILLO, TEXAS, ACCOMPANIED BY NOLAN W. HANCOCK, LEGISLATIVE DIRECTOR, OCAW

STATEMENT OF CARL T. JOHNSON

Mr. JOHNSON. Mr. Chairman, my name is Carl Johnson. I am chairman of the Helium Advisory Council, which is a national organization comprised of many of the leading companies engaged in the helium business including the recovery from natural gas, refining, marketing, and distribution sectors of the private industry. HAC operates as a council within the Compressed Gas Association, and thank you very much for inviting us to speak at this hearing.

I have with me today a representative of the recovery operation, Mr. Henry Galpin of Mesa, and a representative of the refining, marketing, and distribution sector, Mr. Ben Reinoehl of Air Products and Chemicals.

The Helium Reform Act of 1994, developed by you and Representative Barbara Vucanovich, is the most meaningful reform initiative of the Government Helium Program since the 1960 Act, and

we applaud your creativity, acumen, and forthrightness in crafting it. H.R. 3967 brings to a logical and reasonable end Government participation in the United States helium market.

The private sector is now fully capable of serving all customer requirements for helium. Where it once made sense for the Government to service Federal agency needs, it no longer does. The private sector has matured, and under this bill an antiquated and inefficient Government program is eliminated.

H.R. 3967 establishes a sound mechanism for a total repayment of the Federal helium debt, now \$1.3 billion, while ensuring that Government users of helium receive all of their product at a competitive cost. The taxpayers are spared additional waste and at the same time are able to recover total investment spent in amassing the Federal helium reserve, all this accomplished without disrupting the private helium market.

Some critics still try to make the case that the Federal Helium Program is not in need of reform—that it is not broken, so to speak. On the contrary, it is very much in need of fixing. Some say that the Bureau of Mines helium activity returns money to the Treasury, but let's look at the facts.

Since 1987 the Bureau of Mines has returned to the Treasury approximately \$46 million of the \$1.3 billion owed, yet the 1960 Act mandates that all of the debt be repaid by 1995. Just how little of the debt has been repaid is shown by the fact that 60 percent of the \$46 million came from new royalty income for the 1987–1993 time period or about \$5 million per year. Royalties, incidentally, are collected from companies who produce helium-rich natural gas on Federal land.

Basically we agree with the Congressional Budget Office estimate that your bill will more than double the yearly income to the U.S. Treasury in addition to the royalty payment. We may differ exactly how the income figure was arrived at, but the conclusion is the same—your bill is better for the U.S. taxpayer.

As your bill recognizes, debt repayment is important. Some say that the current debt is simply a paper transaction or not real money, as it is one Federal agency owed to another. We believe that this is a bogus argument. Your bill will return very real cash to the taxpayers who put up the money for the Government to get into the helium business.

H.R. 3967 is better than the helium recommendations in the Administration's National Performance Review. We believe H.R. 3967 is preferable to the NPR because: one, it repays the helium debt rather than forgiving the debt; two, it returns more cash to the taxpayer every year; three, it preserves most of the helium reserves for years to come; and four, it promotes private industry investment in efficient recovery and refining capacity.

The NPR cites three factors in determining the future policy for the Federal Helium Program, while your bill accomplishes much more. In H.R. 3967 the debt will be repaid and the inefficient operations of the Bureau of Mines will be eliminated. Both these items will net the Treasury more than 3 times the payments per year proposed in the NPR.

It must be noted here that the NPR states that the Bureau of Mines will reduce costs, increase efficiency, citing an example of

discontinuing small cylinder filling, maintenance, and testing. That operation should have been discontinued 15 years ago, eliminating 30 full-time employees who fill 25,000 to 30,000 cylinders at a cost of \$1 million per year. Private industry has similar trans-fill facilities where 25,000 cylinders are filled for less than \$100,000 per year.

The Bureau of Mines has an impossible task of improving efficiencies on facilities that are 1940–1960 vintage. These old facilities are very labor intensive, employing 10 times as many people as a comparable private industry plants and are not energy efficient per unit of production as compared to newer state-of-the-art private industry plants. The Bureau of Mines' plants are at a period in their equipment life when maintenance costs are at their peak.

Another important real cost related to efficiency not mentioned in the NPR is the helium production losses. Private industry mines helium at less than 3 percent loss, which is input to recovery and refining production as compared with refined helium shipped. Although there is no Bureau of Mines accountability for production losses, vintage production facilities like those operated by the Bureau of Mines have a much higher loss rate.

The Bureau's own figures from 1981–1990 show an average loss of 10 percent or more at a crude helium value of \$40 per MCF, the current production rate; the Bureau of Mines' losses are equivalent to \$1.3 million per year.

A 1992 General Accounting Office report claims that if the Federal agencies are forced to purchase their refined helium from private industry, the agency's costs will be higher. There is no factual basis for this claim. Private industry already supplies a major portion of Federal agencies' helium requirements at their point of use, and these Bureau of Mines' 602 accounts are competitively bid.

The Bureau of Mines does not have the supply infrastructure to serve Federal agencies at their point of use, but private industry does. All Bureau of Mines direct supply accounts can easily be supplied by private industry if the opportunity to make competitive bids is made available.

In preparing its analysis, the GAO did not assign a value to the crude helium from the Federal helium reserve nor an apportionment of the debt repayment. Private refiners can refine crude helium from the Federal reserve far more efficiently than the Bureau of Mines, and as attachment number 1 to my statement shows, the benefit to the Treasury of Government helium requirements being supplied by the private sector would be more than \$40 per MCF for the NASA Kennedy Space Center which uses 80 million cubic feet per year. This is a real cost savings for taxpayers of about \$3.2 million per year.

Helium is a very valuable resource because of its unique physical properties which are critical to many high-technology applications, such as fiber optics, manufacturing, medical magnetic resonance imaging, and computer chip fabrication. As new technology evolves, there is every indication that the demand for helium will increase because of its unique properties.

The Helium Act of 1960 had two principal objectives: one, the conservation of helium which would have been wasted as the natu-

ral gas from the Hugoton Field was produced; and, two, the assurance of a reliable supply to helium users. With a development of a viable helium industry, these objectives have been met. Now is the time to restructure the Federal Helium Program and to assure repayment of the Federal Helium Program debt.

Unlike other proposals that take a meat-axe approach to shutting down the Federal helium activity, the bill you and Mrs. Vucanovich have crafted provides for a reasonable good-government transition. The HAC preference would be to keep the helium in the stockpile until it is needed rather than as is proposed in H.R. 3967. Nevertheless, your approach is logical and fair, and H.R. 3967 deserves to become law.

I would be pleased to answer questions and have questions directed at any of the people accompanying me.

[Prepared statement of Mr. Johnson follows:]

TESTIMONY
OF THE
HELIUM ADVISORY COUNCIL
BEFORE THE
HOUSE NATURAL RESOURCES COMMITTEE
SUBCOMMITTEE ON
ENERGY AND MINERAL RESOURCES
APRIL 19, 1994

Testimony on HR 3967
April 19, 1994

Page 2

Mr. Chairman, my name is Carl Johnson. I am Chairman of the Helium Advisory Council (HAC) which is a national organization comprised of many of the leading companies engaged in the helium business, including the recovery from natural gas, refining, marketing and distribution sectors of the private industry. HAC operates as a Council within the Compressed Gas Association.

Thank you for inviting us to speak at this hearing.

The Helium Reform Act of 1994 developed by you and Representative Barbara Vucanovich is the most meaningful reform initiative of the government helium program since the 1960 Act. We applaud your creativity, acumen and forthrightness in crafting it.

HR 3967 brings to a logical and reasonable end government participation in the United States helium market. The private sector is now fully capable of serving all customer requirements for helium. Where it once made sense for the government to service federal agency needs, it no longer does. The private industry has matured. Under this bill, an antiquated and inefficient government program is eliminated. HR 3967 establishes a sound mechanism for total repayment of the federal helium debt -- now \$1.3 billion -- while ensuring that government users of helium receive all their product at a competitive cost. The taxpayers are spared additional waste and at the same time are able to recover the total investment spent in amassing the Federal Helium Reserve. All this is accomplished without disrupting the private helium market.

Some critics still try to make a case that the Federal Helium Program is not in need of reform -- that it is not "broken" so to speak. On the contrary, it is very much in need of fixing. Some say that The Bureau of Mines' (BOM) helium activity returns money to the Treasury. Let's look at the facts. Since 1987 the BOM has returned to the Treasury approximately \$46 million of the \$1.3 billion owed. Yet, the 1960 Act mandates that all of the debt be paid by 1995. Just how little of the debt has been paid is shown by the fact that 60% of the \$46 million came from new royalty income for the 1987-1993 time period, or about \$5 million/yr. (Royalties are collected from companies who produce helium-rich natural gas on federal land). Basically, we agree with the Congressional Budget Office estimate that your bill will more than double the yearly income to the U.S. Treasury in addition to the royalty payment. We may differ with exactly how the income figure was arrived at, but the conclusion is the same: your bill is better for the U.S. taxpayer. As your bill recognizes, debt repayment is important. Some say that the current debt is simply a paper transaction or not real as it is money owed to one federal agency by another. We believe that this is a bogus argument. Your bill will return very real cash to the taxpayers who put up the money for the government to get into the helium business.

HR 3967 is far better than the helium recommendations in the Administration's National Performance Review (NPR). We believe HR 3967 is preferable to the NPR because:

- (1) It repays the helium debt rather than forgiving the debt
- (2) It returns more cash to the Treasury every year
- (3) It preserves most of the helium reserve for years to come
- (4) It promotes private industry investment in efficient recovery and refining capacity

The NPR cites three factors in determining the future policy for the federal helium program while your bill accomplishes much more. In HR 3967 the debt will be repaid and the inefficient operations of the BOM will be eliminated. Both these items will net the Treasury more than three times the payments per year proposed in the NPR. It must be noted here that the NPR states that the BOM will reduce costs and increase efficiency citing an example of discontinuing small cylinder filling, maintenance and testing. This operation should have been discontinued 15 years ago, eliminating 30 full time employees who filled 25 to 30 thousand cylinders at a cost of \$1 million per year. Private industry has similar transfill facilities where 25,000 cylinders are filled for less than \$100,000 per year.

The BOM has an impossible task improving efficiency on facilities that are 1940-1960 vintage. These old facilities are very labor intensive, employing ten times as many people as a comparable private industry plant, and not energy efficient per unit of production as compared to newer "state of the art" private industry plants. The BOM plants are at the period in their equipment life when maintenance costs are at their peak.

Another important real cost related to efficiency not mentioned in the NPR is helium production losses. Private industry refines helium at less than a 3% loss (helium input to recovery and refining production as compared to refined helium shipped). Although there is no BOM accountability for production losses, vintage production facilities like those operated by the BOM have a much higher loss rate. The Bureau's own figures from 1981 to 1990 show an average loss of about 10% or more. At a crude helium value of \$40/MCF, and at the current production rate, the BOM losses are equivalent to \$1.3 million per year.

A 1992 General Accounting Office (GAO) report claims that if federal agencies are forced to purchase their refined helium from private industry, the agencies' cost will be higher. There is no factual basis for this claim. Private industry already supplies a major portion of federal agencies' helium requirements at their "point of use" and these BOM "602 Accounts" are competitively bid. The BOM does not have the supply infrastructure to serve federal agencies at their "point of use", but private industry does. All current BOM direct supply accounts can easily be supplied by private industry if the opportunity to make competitive bids is made available. In preparing its analysis, the GAO did not assign a value to crude helium from the Federal Helium Reserve nor an apportionment of the debt repayment. Private refiners can refine crude helium from the Federal Helium Reserve far more efficiently than the BOM. As attachment 1 shows, the benefit to the Treasury of government helium requirements being supplied by the private sector would be more than \$40 per MCF. For the NASA Kennedy Space Center, which uses 80 million cubic feet per year, this is a real cost savings for taxpayers of \$3.2 million per year.

Helium is a very valuable resource because of its unique physical properties which are critical to many high technology applications such as fiber optics manufacturing, medical magnetic resonance imaging (MRI) and computer chip fabrication. As new technology evolves there is every indication that demand for helium will increase because of its unique properties.

The Helium Act of 1960 had two principal objectives; 1) the conservation of helium which would have been wasted as the natural gas from the Hugoton Field was produced; and 2) the assurance of a reliable supply to helium users. With the development of a viable private helium industry, these objectives have been met. Now is the time to restructure the Federal Helium Program and assure repayment of the Helium Program debt.

Unlike other proposals that take a meat-ax approach to shutting down the Federal Helium Activity, the bill you and Mrs. Vucanovich have crafted provides for a reasonable, "good government" transition. The HAC preference would be to keep the helium in the government stockpile until it is needed, rather than as proposed in HR 3967. Nevertheless, your approach is logical and fair. HR 3967 deserves to become law.

ATTACHMENT 1

NASA KENNEDY SPACE CENTER EXAMPLE

CASH TO/(FROM)
TREASURY
\$MSCF

CURRENT USBM SUPPLY

<u>NASA</u>	Product & Filling Charges fob Exell	(56.00)
	Delivery Paid to 3rd Party (Railroads Haulers) and USBM Equipment Charges	(23.00)
	Total NASA Cash Outflow	(79.00)

USBM Cash Remittance to U.S. Treasury

Total FY 1992	\$9,400,000
Less Royalty Income	<u>5,000,000</u>
Cash from Helium Operations	\$4,400,000

Divided by Produced Volume FY 1992	341,000 MSCF	<u>12.90</u>
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Total USBM Cash to Treasury	<u>12.90</u>
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NET CASH COST TO TREASURY	<u>(66.10)</u>
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PRIVATE INDUSTRY SUPPLY

<u>NASA</u>	Delivered Product Price to KSC	(70.00)
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<u>USBM</u>	Private Supplier Crude Helium Purchase @ \$40.00/MSCF (H. R. 3967)	40.00
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Private Supplier Income Taxes @ 36%	<u>5.04</u>
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NET CASH COST TO TREASURY	<u>(24.96)</u>
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PRIVATE INDUSTRY SUPPLY TREASURY BENEFIT \$/MSCF	<u>41.14</u>
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Mr. LEHMAN. Thank you for your testimony.
Mr. Fairbanks.

STATEMENT OF DAVID FAIRBANKS

Mr. FAIRBANKS. Thank you, Mr. Chairman.

My name is David Fairbanks, an engineer with Southwestern Public Service Company, but today I am here representing the Amarillo Chamber of Commerce and its 1,600 members. First I would like to thank you for this opportunity to give this testimony before you.

The helium operations and its reserves outside Amarillo are an important part of our region's natural gas industry and play a vital role in our overall economy. Our Government is concerned about the potential loss of 220 jobs, but more importantly, we are concerned about what is being proposed as a new direction for the Helium Program.

If the Federal Helium Program is privatized, we believe in the long run that the Federal Government will pay more for helium, have less service, and have increased costs.

The 1960 Helium Act has been a success. Before the passage of the Helium Act, the United States was not able to meet helium demands or store this vital, non-replenishable resource. Prior to the 1960 Act, there was no private helium production. Today 89 percent of the helium is being produced by the private sector. Prior to 1960, there was no storage capacity. Today there is 34 billion cubic feet of Government-owned reserves and 2.2 billion cubic feet of private reserves. The Helium Act has been a success in developing the private-sector production and developing a strategic reserve for helium.

What causes the helium operation to be red-flagged every year for the last 7 years has been the \$1.3 billion debt and interest that has occurred as a result of the 1960 Helium Act. Although the program has been targeted as a good example of government waste, when the program's operation and purpose have been explained it has been deemed a success. What most lay people don't understand is that the Helium Program receives no appropriation but returns between \$7 million and \$10 million per year to the Treasury.

The program is efficient in meeting Federal agencies' demands for helium. Federal agencies that are customers of the Bureau of Mines' Helium Program have been pleased with the Bureau's performance and, when questioned, appear to have some apprehension about the possibility of privatization of the helium operation.

The Helium Advisory Council has argued that the helium operation is inefficient and outdated and continuously cites that \$55 per thousand cubic feet of helium as an example of the inefficiency of operation, but in a real sense, we are not comparing apples to apples. Since the Bureau's capital assets and inventory have already been paid for by the Federal Government, the Bureau could sell helium at \$37.50 per thousand cubic feet and cover its operating expense. The current private sector helium price is selling at \$45 per thousand cubic feet, a \$7.50 difference.

Federal agencies that purchase helium from the Bureau are currently not encumbered by additional administrative costs that would increase if the helium operations were privatized. Costs such

as administration, bid procedures, and amending orders currently do not exist between the Bureau and other Federal agencies. One simple phone call to the Bureau provides the needed helium for any Federal agency.

But what the Helium Advisory Council wants is for the Federal Government to get out of the helium business altogether except for one small part. The Council wants to have its cake and eat it too. The Council wants the Bureau out of the way except for the operations at Cliffside reservoir, and why? The Helium Council wants to run the reserve. In essence, the Council wants what every business person wants, a helium business without a major capital investment.

To truly privatize the helium operation, private industry should or would have to build a storage facility and spend millions of dollars to operate that facility, or they should have to purchase the Government's Cliffside facility. If that were to occur, the cost of helium would go through the roof for these companies to get a return on their investment for production and development of the facility. Instead of returning \$7 million to \$10 million a year to the Treasury, the Federal Government would drastically increase its costs for the use of helium for the Federal agencies.

One other caveat: the Federal Helium Program acts as a balance or safeguard against a very few large companies that could control the helium market. The private sector sells helium today at \$10 below the Federal price, but where would those customers buy helium if the private sector was selling helium for \$60 per thousand cubic feet? In a market economy, they would buy from the Federal Government because the prices would be lower. But how would those customers buy from the Federal Government if the Federal Government was not in the helium business? The current program provides a balance to the private sector.

The 1960 Helium Act has been a success. Let me just review a couple of major highlights and concerns about privatizing the helium operation. One, there is not Federal appropriations for the Helium Program. Two, the program returns between \$7 million to \$10 million per year to the Treasury. Three, the program provides a secure and efficient supply of helium for Federal agencies.

True privatization of the helium operation, which would include selling the reserve facilities or require the private sector to build a reserve facility, would force helium prices to go through the roof. Not only would there be a dramatic increase in the price of helium for Federal agencies, but for everyone who is an end user of helium. Finally, the Helium Program provides a balance so that a few large companies cannot control the helium market.

The Amarillo Chamber of Commerce encourages the continuation of the Helium Program with these suggested changes: one, cancel the debt that was incurred because of the 1960 Helium Act; two, limit the Bureau's sale of helium to Federal agencies; three, use the helium operation and production as a counterbalance to the po-

tential controlling of the helium market by a few very large companies.

I also have a resolution from the city of Amarillo supporting the continuation of the Helium Program.

Thank you.

[Prepared statement of Mr. Fairbanks follows:]

Amarillo Chamber of Commerce

Testimony before
U.S. House of Representatives
Committee on Natural Resources
April 19, 1994

Washington
 U.S. House of Representatives
 Committee on Natural Resources

My name is Dave Fairbanks, and I work for Southwestern Public Service, but I am here today representing the Amarillo Chamber of Commerce and its 1,600 members. The Helium Operations and its reserve outside Amarillo are an important part of our regions natural gas industry and play a vital role in our overall economy. Our community is concerned about the potential loss of 220 jobs, but more importantly, we are concerned about what is being proposed as a new direction for the helium program. If the Federal Helium Program is privatized, we believe in the long run, that the Federal Government will pay more for helium, have less service, and have increased costs.

The 1960 Helium Act has been a success. Before the passage of the Helium Act, the United States was not able to meet helium demands, or store this vital and non-replenishable resource. Prior to the 1960 Act, there was no private helium production. Today, 89% of the helium is being produced by the private sector. Prior to 1960, there was no storage capacity. Today, there is 34 billion cubic feet of government owned reserves and 2.2 billion cubic feet of private reserves. The Helium Act and been a success in developing the private sector production and developing a strategic reserve for helium.

What causes the helium operation to be red flagged every year for the last seven years has been the \$1.3 billion debt and interest that has occurred as a result of the 1960 Helium Act.

Although the program has been targeted as an example of government waste, when the program's operation and purpose has been explained, it has been deemed a success. What most lay people don't understand is that the Helium Program receives no Federal appropriation, but returns between \$7 and \$10 million per year to the Treasury. The program is efficient in meeting Federal Agency's demands for helium. Federal Agency's that are customers of the Bureau's Helium Program have been pleased with the Bureau's performance, and when questioned, appear to have some apprehension about the possibility of privatization of the Helium Operation.

The Helium Advisory Council has argued that the Helium Operation is inefficient and outdated and continuously site that \$55 per thousand cubic feet price of helium as examples of inefficiencies of the operation. But in a real sense, we're not comparing apples to apples. Since the Bureau's capital assets and inventory have already been paid for by the Federal Government, the Bureau could sell its helium at \$37.50 per thousand cubic feet and cover it operating expenses. The current private sector helium price is selling at \$45 per thousand cubic feet, a \$7.50 difference.

Federal Agencies that purchase helium from the Bureau are currently not encumbered by additional administrative costs that would increase if the helium operations were privatized. Costs such as administration, bid procedures, and amending orders currently do not exist between the Bureau and other Federal Agencies. One simple phone call to the Bureau provides the needed helium for any Federal agency.

But what the Helium Advisory Council wants is for the Federal Government to get out of the helium business all together except for one small part. The Council "wants its cake and eat it too." The Council wants the Bureau out of the way except for the operations at the Cliffside reserves. And why? The Helium Council wants Federal Government to run the reserve. In essence, the Council wants what every business person wants--a business without a major capital investment. To truly privatize the Helium Operation, private industry should or would have to build a storage facility and spend millions of dollars to operate that facility, or they should have to purchase the Government's Cliffside facility. If that were to occur, the cost of helium would go through the roof for these companies to get a return on their investment for production and development of the facility. Instead of returning between \$7 and \$10 million per year to the treasury, the Federal Government would be dramatically increasing its costs for use of helium for Federal Agencies.

One other caveat, the Federal Helium Program acts as a balance or safeguard against a very few large companies that could control the helium market. The private sector sells helium today at \$10 below the Federal price. But, where would those customers buy helium if the private sector was selling helium for \$60 per thousand cubic feet? In a market economy, they would buy from the Federal Government, because the prices would be lower. But who would those customers buy from if the Federal Government was not in the helium business? The current program provides a balance to the private sector.

The 1960 Helium Act has been a success. Let me just review a couple of major highlights and concerns about privatizing the helium operation:

- 1) There is not Federal Appropriations for the Helium Program.
- 2) The Program returns between \$7 to \$10 million per year to the Treasury.
- 3) The program provides a secure and efficient supply of helium for Federal Agencies.
- 4) True privatization of the Helium Operation, which would include selling the reserve facility or require the private sector to build a reserve facility would force the helium prices to go through the roof. Not only would there be a dramatic increase in the price of helium for Federal Agencies, but everyone who is an end user of helium.
- 5) The helium program provides a balance so that a few large companies cannot control the helium market.

The Amarillo Chamber encourages the continuation of the Helium program with these suggested changes:

- 1) Cancel the debt that was incurred because of the 1960 Helium Act.
- 2) Limit the bureau's sale of helium to federal agencies.
- 3) Use the helium operation and production as a counter balance to the potential controlling of the helium market by a few very large companies.

I also have a resolution from the City Amarillo supporting the continuation of the helium program. Thank You.

Mr. LEHMAN. Thank you very much.

STATEMENT OF DENNIS MILLS

Mr. MILLS. Mr. Chairman, members of the subcommittee, I have written testimony I would like to have submitted into this hearing's written testimony.

Mr. LEHMAN. Without objection, and thank you.

Mr. MILLS. Mr. Chairman and members of the subcommittee, thank you for allowing me to testify on behalf of the 100,000 members of the Oil, Chemical, and Atomic Workers International Union and the 200-plus employees at the U.S. Bureau of Mines helium operation facilities in and around the Amarillo, Texas, area.

My name is Dennis Mills. I am accompanied by Nolan W. Hancock, legislative director of the OCAW. I am a high-pressure machinist with a secondary classification, foreman 3, maintenance supervisor at the Amarillo helium plant. I have been an employee at the U.S. Government helium operations facility and a member of the OCAW Local 4-487, in Dumas, Texas, for more than 14 years. I am here due to the generous contributions of my fellow union members. I am here on my own time on leave without pay.

I am here to testify against the provisions contained in H.R. 3967. We are against the proposed legislation simply because it would shut down all helium production, purifying, marketing, analytical and technical facilities, eliminating more than 200 current jobs including my own at the helium facilities.

We are just hard-working people who want to do a good job. We believe in this country and its principles; we support the President. We are ready, willing, and able to do whatever is asked of us. I am not here asking for a handout or to continue a program that is wasteful or expensive.

We believe that the work that we do is helping this Nation. We are against the proposed legislation and instead ask you to adopt the National Performance Review recommendations as proposed by the Administration. NPR says we need to streamline the program and make it more efficient. The adoption of the NPR report would save 196 of the 220 present jobs. Simply put, we believe the proposed bill is just not a good idea.

Passage of this bill will not lower this Nation's deficit. It will, however, put me and 200 of my fellow employees out of a job and take \$32 million plus annually from our local economy. More importantly, it will also further the burden to you and me, the taxpayers, with increased helium costs to our Federal agencies.

At the present time the Helium Program is self-sustaining and requires no Government appropriations. We produce helium and sell it at cost to our Federal customers, and any profit realized is returned to the U.S. Treasury and ultimately results in savings to the taxpayer. In 1993 the helium operations returned approximately \$13 million to the U.S. Treasury.

I am sure that you know that Congressman Rahall asked GAO for a study and their experts spent about a year studying the Helium Program and basically found that the program was not broken and therefore didn't need fixing.

Mr. Chairman, we believe the Federal Helium Program works and works well. The Helium Program's current capabilities are

well-known and uncontested among Federal agencies using their services. The drive to terminate the Federal Helium Program does not come from its Federal and private customers, but it is my understanding it comes from the ten member companies which make up the Helium Advisory Council of the Compressed Gas Association.

We sincerely question whether eliminating the Federal Government's Helium Program under this bill is in the best interests of the American taxpayer, or does it simply serve the interests of the ten member companies of the Helium Advisory Council whose bottom line is profits through higher helium prices?

Again, we are not asking you to continue a wasteful program. We are asking you as workers at the helium facility and as taxpayers, please don't change this program proposed by this bill but instead adopt the recommendations of the Administration as stated in NPR. We are proud of what we do and we want to continue doing our jobs. Please don't take these jobs away from us and at the same time increase the cost to the Federal Government and ultimately the public.

Mr. Chairman, I am a good employee and a good machinist. I earn \$17.40 an hour. Good union jobs in our local area are hard to find. This committee has the power to save mine and 2,300 good, union-paying jobs and stop the economic devastation that our families would face under this legislation. We sincerely urge you to reconsider and support the option outlined under the NPR report.

Thank you for allowing me to testify before this committee. I will certainly answer any questions that you may have.

[Prepared statement of Mr. Mills follows:]

STATEMENT OF
DENNIS MILLS
ON BEHALF OF THE
OIL, CHEMICAL AND ATOMIC WORKERS
INTERNATIONAL UNION
CONCERNING
H.R. 3967, THE HELIUM ACT OF 1994
BEFORE THE
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
HOUSE NATURAL RESOURCES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

APRIL 19, 1994

Mr. Chairman, Members of the Subcommittee, thank you for allowing me to testify on behalf of the 100,000 members of the Oil, Chemical and Atomic Workers International Union (OCAW), and the a 200 plus employees at the U.S. Bureau of Mines Helium Operation facilities in and around Amarillo, Texas.

My name is Dennis Mills. I am accompanied by Nolan W. Hancock, Legislative Director for the OCAW. I am a High Pressure Machinist with a Secondary Classification Foreman III Maintenance Supervisor at the Amarillo Helium Plant. I have been an employee at the U.S. Government Helium Operation Facility, and a member of the OCAW Local 4-487 in Dumas, Texas for more than 14 years. I am here due to the generous contributions of my fellow union members. I am here on my own time, on leave without pay.

I am here to testify against the provisions contained in H.R. 3967. We are against the proposed legislation simply because it would shut down all helium production; purifying; market; and analytical and technical facilities, eliminating more than 200 current jobs including my own at the helium facilities.

We are just hard working people that want to do a good job. We believe in this country and its principles, and we support the President. We're ready, willing, and able to do whatever is asked of us. I'm not here asking for a handout or to continue a program that's wasteful or expensive.

We believe that the work that we do is helping the nation. We are against the proposed legislation and, instead, ask that you adopt the National Performance Review (NPR) recommendations as proposed by the Administration. NPR says to streamline the helium program and make it more efficient. The adoption of the NPR Report will generate more money back to the Treasury while this bill as proposed would increase the cost of helium to the Government and thus the taxpayer. Simply put, we believe that the proposed bill is just not a good idea.

Our people at the helium operations are old-fashioned. We believe in hard work, and we're proud of what we do. When a space shuttle is launched, we know we had a part in that program. During Desert Storm, we received a telephone order for a special shipment of helium due within the next 48 hours. That order was shipped in two hours. Our Federal customers constantly tell us what an excellent job we're doing. We have received letters from NASA, the Air Force, the Navy, the Department of Energy, and others, telling us how much they appreciate the good job we do. We take a great deal of pride in knowing that those customers are satisfied.

Passage of this bill will not lower this nation's deficit, it will however put me and 200 of my fellow employees out of a job and take an \$32 million plus annually from our local economy. More importantly, it will also further burden you and me, the taxpayer, with increased helium costs for our government agencies.

At the present time the helium program is self-sustaining and requires no government appropriations. We produce helium and sell it at cost to our federal customers and any profit realized is returned to the U.S. Treasury, and ultimately results in savings to the taxpayer. In 1993 helium operations returned approximately \$13 million to the U.S. Treasury.

We don't understand why some people won't listen to the experts -- the ones that have studied the program -- the ones that are qualified. There's a lot of controversy about the debt and the interest. Even if you scrap the program, you aren't changing the debt. I'm sure that you know that Congressman Rahall asked GAO for a study, and their experts spent about one year studying the helium program. When they testified before this Committee in May 1993, GAO said that the debt has no effect on the federal budget -- that it's simply a paper transaction, and maybe the most important thing stated by GAO was in response to a question by you Chairman Lehman and let me just read it:

"Chairman Lehman. Mr. Duffus, the Federal Government, the Bureau I guess, charges \$55 per thousand cubic feet. I understand the private industry price is \$45. Would the federal budget realize -- would it benefit from purchasing it (helium) from the private side?

Answer: "Mr. Duffus. No. I think it would have a contrary effect."

In testimony that followed GAO, the IG also agreed with GAO. I just don't understand how these experts can be dismissed and how others can substitute their judgement for these proposed changes that would increase the cost to the taxpayers. It just makes no sense to me. The cost to the Government is less because our costs are a lot lower than the private companies will charge, and GAO understands this.

Mr. Chairman, we believe the Federal Helium Program works, and works well. The helium program's current capabilities are well known and uncontested among federal agencies using their services. The drive to terminate the Federal Helium Program does not come from its federal and private customers, but its my understanding it comes from the 10 member companies which make up the Helium Advisory Council of the Compressed Gas Association. We sincerely question whether eliminating the Federal Government's helium production program under this bill is in the best interest of the American taxpayer, or does it simply serve the interest of the 10 member companies of the Helium Advisory Council whose bottom line is profits through higher helium prices. These compressed gas companies would never sell helium to NASA, the Department of Defense or to the Department of Energy, or anyone else in the Federal Government for just the cost of production. We all know that these companies are in business for only one reason, and that's to make a profit. Now that's not a bad reason, but it is wrong to shutdown a government helium program that works well and saves the government millions of dollars, just to allow bigger profits for the gas industry.

In addition to providing gaseous helium to our federal and private customers, we also provide them with unique technical and analytical services. This important analytical program would also be lost with the shut down of the helium program. The Government's helium analytical program sets the standard. Many aspects of the helium operation's technical and analytical service are totally unique and not performed elsewhere. I understand the Federal Helium Program also produces Isotopically Purified Helium 4 in quantities and sells it at a fair market price to academic and federal laboratories, NASA contractors, commercial suppliers of isotopically purified gases, and to research laboratories in France and Israel. I understand the helium operations is unique in its ability to certify the isotopic content of Helium 4.

I believe no one else can produce and sell at the market price the quantities of these analytically certified gases that the helium operation does routinely. It is my understanding that the 10 Helium Advisory Council member companies must come to the Federal Government's Helium Operations for National Bureau Standard (NBS) certified mixtures.

Questions have been raised about the age of helium operations equipment and facilities. Because some of the equipment is original (natural gas compressors, etc.), much of this equipment is not as automated as at some of the newer private plants. However, much of the separation equipment has been replaced over the years and is comparable to private industries' equipment. As time and funds permit, automated controls have been installed; and as equipment replacement is required, it is replaced with the latest technology.

Even though much of the equipment may be older, production costs for the Bureau remain competitive with industry costs. The funded cost to the Bureau to produce helium is less than \$40 per thousand cubic feet. The Bureau's selling price is \$55 per thousand but this price is "self-mandated" so that the Bureau is not competing with private industry. Excess funds resulting from sales at this higher price are returned to the Treasury, and this has the net effect of reducing the cost of helium used by federal agencies below the price that those agencies would pay for helium from private industry. In other words, the net cost to the Government would increase if the Bureau were eliminated as supplier of helium to federal agencies.

As I understand it, it is not well known that if the U.S. Bureau of Mines Helium Operation facilities are eliminated, then NASA, as an example, will require an immediate outlay of approximately \$6 to \$18 million to develop a capability to meet the gaseous helium requirements, with product supplied as liquid helium. These estimates do not include operation and maintenance costs, and training and documentation costs of the new system. The addition of a liquid helium conversion system is likely to have significant R&D costs associated with the Kennedy Space Center's high quantity and pressure demands. Simply put, acquisition of helium supplies from the private sector will add significant cost to the price of helium and ultimately the taxpayer.

Again, we're not asking you to continue a wasteful program. We are also asking you as workers at the helium facility and as taxpayers: Please don't change this program as proposed by this bill, but instead adopt the recommendations of the Administration as stated in the NPR. We're proud of what we do, and we want to continue doing our jobs. Don't take these jobs away from us, and at the same time, increase costs to the Federal Government, and ultimately the public.

Thank you for allowing me to speak before this Committee.

Mr. LEHMAN. Thank you, Mr. Mills.

Mr. JOHNSON, how do you respond to the Administration's qualifier at the end of the last question I asked that the private industry would have to make adjustments in order to meet Federal needs if the Federal Government pulled out of the helium business?

Mr. JOHNSON. I believe that the private industry is ready to meet those adjustments, and in fact if you would like, Mr. Reinoehl with Air Products could probably answer that question better than I.

Ben?

Mr. LEHMAN. Why don't you give us your name for the record.

Mr. REINOEHL. Ben Reinoehl, Air Products and Chemicals.

There is no question in my mind that today we can provide the 300 million cubic feet that is sold to Government agencies. More than half of that is already sold through private-industry infrastructure.

The additional volumes are supplied directly; there really would be no problem at all to move that. Enough equipment is in place; enough capacity is in place. We see no problems technically or any other way.

Mr. LEHMAN. Mr. Johnson, Mr. Cox brought up some questions earlier about whether or not we ought to just get out of this program immediately, which was his feeling, or do as our bill does, which is get out of the program but allow some time for the market to settle out. We looked at those options and decided this was the best one. I would like you just to comment on that.

Mr. JOHNSON. We certainly endorse that. We think that by dumping the crude on the market you would certainly devastate the current recovery of helium from current production of natural gas and waste a very valuable resource and be in a position at a time when the production from the Hugoton field begins to fall down, and demand increases, when you have even less helium, probably no helium, from the Federal reserve or from some of the currently rich fields. So I believe that the time is necessary.

Ben?

Mr. LEHMAN. Do you want to follow up on that, Mr. Reinoehl?

Mr. REINOEHL. I would like to make one statement. I think that according to some of the statements made here earlier, the year 2014 would be the first time any additional crude would be sold other than that that was sold to the Federal agencies. That is just not true because we have developed the model in our company that shows the production of natural gas from the Hugoton Panhandle Fields, and without question on any reasonable growth. And the growth from 1972-1992 was 9.3 percent.

But assuming even a lesser growth, I think that some time after the year 2000 there will be not enough crude helium available for private industry to refine. At that time it will begin to sell some crude out of the storage without disrupting the market, and it makes a lot of sense; your bill makes that possible.

Mr. LEHMAN. Thank you.

Mr. Mills, I want to comment on what you had to say. I think every member of this committee wants to be very careful here and is very cognizant of the special problems that could happen if this isn't done properly down there for people who have jobs. Mr.

Sarpalius has been in my office several times discussing this, and I know it is his highest concern.

Could you explain for us what the breakdown is on these people? Are these Federal employees?

Mr. MILLS. Yes, they are.

Mr. LEHMAN. Are they civil service?

Mr. MILLS. No, they are not; they are union members, GS-rated employees. Do you want a breakdown as to how many people?

Mr. LEHMAN. Maybe you could supply that information for us. We have some charts that tell us from the Federal angle basically who is employed here, and we want to look at that as the legislation goes forward. Obviously, we want to make it as easy as possible and not cause any undue hardships.

Do they negotiate for wages then?

Mr. MILLS. Yes, we do.

Mr. Chairman, more than half—I don't have exact numbers, but we are a stand-alone operation, which means our administrative people, our engineers, all of our people are located in one area, and we have our labor employees.

Mr. LEHMAN. The chart I have has you with 97 members in the bargaining unit. Is that right?

Mr. MILLS. Approximately 110, I believe.

Mr. LEHMAN. Okay. I have 97 here. We won't bicker over 13. So there would be 110, and there are about 250 people totally involved in the program—229, I think.

Mr. MILLS. Right now our FTE is about 220, I believe—220, 226. If the NPR recommendations are adopted our FTE ceiling would be 196. That is at the beginning of Fiscal Year 1995, I believe, which would be October 1 of 1994. Am I correct?

Mr. LEHMAN. That is correct.

Mr. MILLS. With this bill, the majority of these employees would be affected. I don't know how many people would be left in helium operations if this bill were to be passed. Under its present form my guess is fewer than 20 would still be employees of the helium operations group if this bill is allowed to pass. We are talking about the majority of 200 people.

Mr. LEHMAN. You see, civil servants would have retention rights, but these aren't civil servants.

Mr. MILLS. I don't know anything about that. I know my job will be lost.

Mr. LEHMAN. Well, we will explore this further. I just want to give you that assurance, and maybe we will be back in touch with the union as well, and we will work with Mr. Sarpalius.

Mrs. Vucanovich.

Mrs. VUCANOVICH. Thank you very much, Mr. Chairman.

Mr. Johnson, what would change under our bill from the way private industry currently interacts with the Bureau now in providing helium to Government customers?

Mr. JOHNSON. I don't believe that much would change at all in terms of the way they are supplied. In fact, much of the Federal helium is supplied through the HAC members at this point on 602, as I mentioned in my testimony, on point of sale, because the Government doesn't have that point of sale capability.

Mrs. VUCANOVICH. How many people work in your industry?

Mr. JOHNSON. Well, we have an estimate of about—as the figure you had—about 500. Actually, I believe it is probably less than that. It is just slightly over 400, between 400 and 450, as we count them, and that includes people from the recovery of helium from natural gas to the refining and marketing to the distribution end of it, which is certainly not involved in the Federal area either.

That does not include people at the retail, obviously, outlets where helium is sold to whoever might be the end user, people coming in and buying balloon sales, for example. That wouldn't include that number.

Mrs. VUCANOVICH. Can you compare various activities such as refining and distribution with those of the Government?

Mr. JOHNSON. Well, certainly the most dramatic, I would think, would be the refining operations where the private sector state-of-the-art plants have typically in the range of maybe 12 to maybe a high of 18 people depending upon the size and what the operation is.

Mrs. VUCANOVICH. Because of the modern equipment and so forth?

Mr. JOHNSON. Yes, as compared with the roughly 180 or so that are attributable to the refining operation at the Bureau of Mines operation.

Mrs. VUCANOVICH. I am just curious how you respond to Mr. Mills' criticism of you regarding being the driving force behind this bill. I didn't even know that you were around.

Mr. JOHNSON. Perhaps he credits me with too much.

Mrs. VUCANOVICH. I think so.

Well, is it true, as Mr. Mills asserts, that NASA would have to spend \$6 billion to \$18 billion to build a new facility if the private sector refined and marketed helium to them?

Mr. JOHNSON. No, that is not true.

Mr. MILLS. That is \$6 million to \$18 million, I believe?

Mrs. VUCANOVICH. Yes.

Mr. JOHNSON. That is not correct.

Mrs. VUCANOVICH. Thank you.

Mr. Mills, since you reference the GAO's comments in your testimony, I wondered what your opinion is of GAO's remarks in their testimony today that our bill, quote, provides a viable alternative for meeting current and foreseeable Federal needs for helium.

Mr. MILLS. I really couldn't comment at this time on that.

Mrs. VUCANOVICH. You think the Government is doing it better?

Mr. MILLS. Well, we produce helium for less than \$40 an MCF—that is, a thousand cubic feet. I know this testimony has already been said here. We sell to our Federal customers for \$55 an MCF, a self-mandated price. We return the difference to the Treasury. So in essence we sell at-cost helium to Federal agencies.

Now the private sector is in the business to make a profit. They cannot sell at cost to the Federal agencies, they have to make a profit for them to stay in business. Not that that is a bad thing; that is just the way business is.

Mrs. VUCANOVICH. A lot of people think that is a good idea.

Well, you indicated that the Helium Advisory Council is a driving force behind eliminating the Helium Program, but how do you explain the support for eliminating this program to include the U.S.

Chamber and the Heritage Foundation and the National Taxpayers Union and lots of Members of Congress?

Mr. MILLS. Misinformation more than anything.

Mrs. VUCANOVICH. I see.

Mr. MILLS. Up until just a few months ago the only story I heard was that we still fill dirigibles.

Mrs. VUCANOVICH. I am sorry, that you what?

Mr. MILLS. That we still filled dirigibles—balloons. That is just not the case. The whole story hasn't been told.

Mrs. VUCANOVICH. Well, we appreciate your testimony and your being here.

Mr. FAIRBANKS, what is your opinion of the fact that the Government has repaid only \$77 million of the \$252 million that were borrowed to purchase helium? Do you think that is a fair return on a loan?

Mr. FAIRBANKS. From a business standpoint, that wouldn't be a good deal.

Mrs. VUCANOVICH. Yes, that is why we are here.

Mr. FAIRBANKS. From a policy standpoint, I believe the reason it was set aside was not as a business but as a strategic need, much as though a defense system might be put in place. And the irony is that most defense systems don't have any value today; the entire cost was lost except for that increment that still remains. But over the years we have gone through various cycles of newer, better technology, and that cost is basically lost.

Here we have a strategic product that still has some value. That is a policy decision, not really a business one, and the fact that we can maintain that inventory, that policy, without a cost to the current budget, I think it is a little better than the average strategic viewpoint.

Mrs. VUCANOVICH. Well, I have no further questions. Thank you all very much for your testimony.

Mr. LEHMAN. Thank you, and I have no further questions either, so I want to thank this panel for their contribution today and look forward to working with each of you in the near future.

With that, this morning's hearing is adjourned.

[Whereupon, at 11:58 a.m., the subcommittee was adjourned.]

A P P E N D I X

APRIL 19, 1994

ADDITIONAL MATERIAL SUBMITTED FOR THE HEARING RECORD

**STATEMENT BY
THE HON. RICHARD POMBO (CA-11)
BEFORE THE
SUBCOMMITTEE ON ENERGY AND
MINERAL RESOURCES
OF THE
HOUSE COMMITTEE ON NATURAL RESOURCES
ON
APRIL 19, 1994**

Mr. Chairman:

Thank you for holding today's hearing on H.R. 3967, the Helium Act of 1994. I strongly support this measure as it is a workable effort towards eliminating the obsolete and overly expensive federal helium program.

At a time when there was no private production of helium, it may have been necessary for the federal government to store the gas for its scientific and industrial uses. Today, however, the private sector is capable of meeting all of our nation's helium needs -- at one-tenth the cost of the federally stockpiled helium.

Mr. Chairman, I applaud your efforts, as well as the efforts of Chairman Miller and Subcommittee Ranking Minority Member Vucanovich for introducing this bipartisan legislation and for saving the American taxpayer millions of dollars. In an era of soaring federal deficits, this measure is long overdue. Thank you.

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Seth Ghasemi

President

Gases - Americas

April 29, 1994

The Honorable Richard Lehman
Chairman
The Subcommittee on Energy and Mineral Resources
U.S. House of Representatives
Washington, DC 20515

SUBJECT: Airco Gases, a Division of The BOC Group, response to the testimony provided by Representative Bill Sarpallus (TX) before the Subcommittee on Energy and Mineral Resources (April 19, 1994)

Dear Mr. Chairman,

On April 19th, Representative Sarpallus provided testimony to the House Subcommittee on Energy and Mineral Resources concerning legislation H.R. 3967 (otherwise known as the Hellum Act). Airco Gases appreciates and welcomes the advocacy shown by Representative Sarpallus for his constituents in the State of Texas. As an operator of 17 plants and facilities in Texas, Airco shares the Representative's concern for the economy of his great State.

However, Airco is concerned with the impression of our company left by Representative Sarpallus' closing remarks. The Representative spoke of an incident which had recently occurred at an unnamed Air Force Base. According to the Representative's description of the incident, Airco would not deliver aviator's breathing oxygen unless immediate payment was made by the Base. After further investigation of the incident, Airco has found that in fact delivery was made the day following the original placement of the order (given the analysis of the product and the logistics concerning delivery, this was no small feat). Further, it is our understanding that the Air Force flight mission scheduled for the following weekend went off as planned. It is true that Airco demanded payment, but not for the product yet to be delivered, rather for the four deliveries made during the preceding four months. Airco, in reasonable business fashion, requested resolution of the outstanding invoices. After coming to an agreement with the Base, the product was scheduled and delivered the next day. Airco did receive payment for two invoices, but as of now three remain outstanding.



The Honorable Richard Lehman
April 29, 1994
Page 2

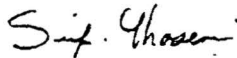
Airco Gases is committed to serving the needs of this Air Force Base. On our part, we will continue to work closely with the personnel at the Base to insure that this situation does not occur again. Airco only asks that we are paid by the government for the product we produce and deliver to the Air Force.

Airco Gases is an organization committed to providing quality products and services not only to the U.S. Air Force but to all of our customers. Airco has over seventy-five years experience in the manufacture of industrial gases and a proven track record of success. In fact, Airco currently supplies over 270 government facilities, 80 of which are for aviator's breathing oxygen. Airco has in fact received many testimonials and commendations from government facilities in the past.

In conclusion, we recognize that mistakes can happen in the best run organizations. However, to take this situation out of context when discussing a subject as significant as the Helium Act seems to be inappropriate. Airco Gases, as well as the industrial gas industry, have been at the forefront of many of the most important initiatives of our country. NASA, The Departments of Energy, Transportation and Defense, the Environmental Protection Agency, The National Laboratories and many major universities and corporations have benefitted from the expertise of the industrial gas industry. The industrial gas industry looks forward to supplying the approximately 50% of the federal government's helium requirement we don't already serve.

Airco Gases appreciates this opportunity to respond to Representative Sarpallus' assertions.

Sincerely,



Seif Ghaseemi

SG/ms

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS



LANE KIRKLAND
PRESIDENT

815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

THOMAS R. DONAHUE
SECRETARY-TREASURER

LEGISLATIVE ALERT!

(202) 637-8075

April 20, 1994

The Honorable George Miller
Chairman
Committee on Natural Resources
U.S. House of Representatives
1324 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Miller:

The AFL-CIO is deeply concerned about, and opposed to, H.R. 3967 which will soon be considered by your committee. This legislation would terminate the Federal Helium Program in and around Amarillo, Texas, shutting down all helium production, purifying and marketing, along with analytical and technical facilities. This would result in the elimination of more than 200 current jobs.

However, the AFL-CIO fully supports the recommendations contained in the report of the National Performance Review (NPR), initiated by Vice President Al Gore. The NPR report calls for streamlining the helium program to make it more efficient.

Critics seek to terminate the Federal Helium Program and assert that it is no longer relevant, is debt-ridden, and constitutes a growing fiscal burden on the taxpayer. These charges are unfounded. Space shuttle support and cryogenic uses of helium by government laboratories establish the fundamental and enduring relevance of the government program. Private sector helium recovery is dependent upon seasonal swings in natural gas production. As government customers will continue to require helium, the government source remains the most reliable supply.

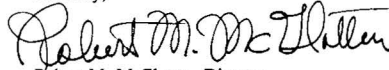
Regarding the debt and taxpayer costs, the General Accounting Office (GAO) in October 1992 and again in April 1994 recommended that the debt be canceled and stated "...cancellation of the helium program's debt would not adversely affect the federal budget because the debt consists of outlays that have already been appropriated and interest that is a paper transaction, not an outlay." GAO findings identify the true character of the \$1.3 billion helium debt. In other words, \$252 million was borrowed from 1964 through 1971 to purchase and store helium in the government's reservoir. This program receives no appropriation and has returned from

\$7 million to \$10 million annually to the Treasury for debt repayment.

On April 19, 1994, the Deputy Assistant Secretary for Water and Science in the Department of Interior further expressed the administration's opposition to H. R. 3967 in its present form in testimony before the Subcommittee on Energy and Mineral Resources.

We urge the committee to adopt the recommendations contained in the National Performance Review rather than the provisions now contained in H.R. 3967. These NPR recommendations would continue to ensure the integrity of the Federal Helium Program which provides a constant supply of helium for federal agency needs. More importantly, it would retain nearly 200 jobs.

Sincerely,



Robert M. McGlotten, Director
DEPARTMENT OF LEGISLATION

cc: Members of Committee on Natural Resources



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